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The Budget as an Economic Document

by

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INTRODUCTION

The importance of the government's budget as an instrument in the formulation of economic policy is generally recognized. The connection between the budget, budgetary policy and the level of economic activity was firmly established by the Keynesian revolution and, since then, by more than two decades of theorizing about, and experience with, counter-cyclical fiscal policy. Yet in many countries, including Canada, surprisingly little, if anything, has been done in the way of improving the budget as an economic document in an effort to make it a more useful tool of economic analysis and a more helpful aid in the interpretation of budgetary policy.

The budget of the federal government, presented annually to the Parliament by the Minister of Finance, contains or represents an integral part of the government's economic stabilization policy, as well as policies aimed at affecting the distribution of income, promoting economic growth, etc. Yet the format of the budget and the type of information it makes available to the public have undergone few changes from the days when the budget served the principal functions of parliamentary accountability and financial control. Hidden deep in the so-called public accounts or administrative budget, or excluded entirely from it, are the raw materials of economic analysis needed to make a proper assessment of the government's impact on the private sector or to prescribe a budgetary (fiscal) policy that will contribute to the attainment of the goals of economic policy.

Interest in budgetary reform along the lines dictated by advances in economic theory and present day objectives of economic policy received its first impetus during World War II when the governments of most Western countries geared their fiscal machinery to cope with an expected postwar downturn in economic activity. The need to replace war demand by a level of peacetime demand that generated neither deflationary nor inflationary pressures in the economy focused attention on the budget and the policy variables that it encompassed as an important factor, or the most important factor, in the formulation of postwar economic policy. The fact that governments in the postwar era assumed responsibility for maintaining aggregate demand at the full-employment level, compensating for any deficiency or excess in private demand, as the need arose, also meant that the budget was closely associated with, or more precisely was a manifestation of, what the government considered to be the economic prospects for the period of time covered by the budget.

The idea that the budget is a major focal point for the formulation of economic policy in a "managed" yet basically free enterprise economy was formally recognized by the United States Government as early as 1941. "The Budget of the United States", the President told Congress, "presents our national program. It is a preview of our work plan, a forecast of things to come. It charts the course of the Nation." 1/ It is not on this side of the Atlantic, however, but in Scandinavia, especially in Sweden and Norway, and the Netherlands, that budgeting and the budget document have reached the highest state of development and sophistication in the postwar period. In the United States, progress in budget reform has been much more modest and of more recent occurrence, while in Canada little effort has been made to design a budget or produce a budget document

capable of providing the public or layman with the information needed to make a proper assessment of budgetary policy.

In the absence of detailed knowledge of the budgetary process and, in particular, of the type of budgetary data used by officials in the formulation of policy, the main argument for budgetary reform must lie in the publicity that an improved budget document would give to the government's intentions and actions in the area of fiscal policy. This is not to suggest that the formulation of fiscal policy would not benefit from a new system of budgetary accounts especially adapted to the needs of economic analysis and policy making, but what can be said on this subject is bound to be largely conjecture. It is to be hoped, however, that the quality, as well as public understanding, of fiscal policy would be improved as a result of budgetary reform. In fact, it is possible to argue that a clearer and less ambiguous presentation of budgetary data, quite apart from whatever sophistication may now exist in the organization and interpretation of such data in official circles, is indispensable if a significant improvement in the quality of fiscal policy is to be achieved.

The importance of keeping the public well informed on budgetary matters and of providing the private sector with the type of information needed for an independent assessment of fiscal policy is frequently overlooked. Yet the success of a countercyclical budgetary policy depends to a very important degree on the governments' ability to convince the public or private decision makers that countercyclical measures currently being implemented or proposed are adequate to maintain economic stability. For example, the response of consumers and producers to an increase in

disposable income, brought about by means of a tax cut, is likely to be different if the tax cut and any concomitant policy changes are deemed to be capable of preventing a further decline in economic activity than if a continuing deterioration in economic conditions is forecast despite government efforts to offset the downswing. If the feeling is that budgetary policy is sufficiently vigorous to effect a reversal in economic activity, producers are much more likely to respond to an increase in new orders by increasing output than if a worsening of conditions is considered to be inevitable before an upswing is possible. New orders in this latter case would be filled wholly or partly out of inventories. Effective countercyclical fiscal policy requires faith in its own efficacy—a faith that is forged from public understanding of the government's role in maintaining economic stability and of the significance of specific budgetary changes intended to achieve a stable economy.

Development of an improved budget document is an essential part of the process of economic education that is necessary if public acceptance is to be won for countercyclical fiscal policy and for budgetary policies aimed at achieving other policy goals. Presentation of the nation's budgetary position within a framework of accounts not attuned to the objectives of modern day fiscal policy can actually increase the obstacles that stand in the way of using the budget as an instrument of economic policy. Fiscal orthodoxy with its equal dislike for budget deficits and surpluses is, if anything, encouraged by a system of budgetary accounts that was developed for purposes of financial control and that stresses, albeit not explicitly, the government's financial position rather than its impact on the private sector of the economy. The political limitations to countercyclical fiscal policy, reflecting as they do a belief in the

need for fiscal soundness in government, are particularly difficult to overcome and are likely to be removed or substantially reduced only if public discussion of fiscal policy can be divorced from the strictly housekeeping aspects of budgeting and a system of public accounts. As will be noted later in this study, public understanding of the theory and practice of compensatory fiscal policy is likely to be achieved only when the alleged analogy between government and a business enterprise recedes into the background of the public mind. The development of a budget that focuses attention on the economic impact of budgetary policy is clearly an important first step in the attainment of this goal.

This study is divided into four chapters. Chapter 1 discusses the essential characteristics of a budget that can be considered ideal from the point of view of its usefulness as a tool of economic analysis and as a means of promoting a better public understanding of budgetary policy. The budget document described in this part of the study is also ideal from the point of view of those government officials who are charged with the responsibility of formulating budgetary policy. It is a budget that meets all the requirements of economic analysis and policy making; in short, it is an <u>economic</u> budget.

Chapter 1 is more speculative than practical in the sense that more questions are raised than answered, and also because the emphasis here is on the ideal budget rather than what can reasonably be expected to be achieved in the way of budgetary reform. A main point made in this part of the study is that an economic budget designed to meet the needs of policy making and intelligent discussion of budgetary policy should not be regarded as a replacement for the administrative budget or as a substitute for any other form of budget such as a programme or performance

budget that is required to ensure financial accountability and efficiency in the operations of government. Indeed, an argument can be made for not publishing an official economic budget to compete with, and to add to the confusion created by, existing forms of budget or statements of the government's budgetary position. An alternative course of action, but one not recommended in this study, consists of publishing, either in a comprehensive budget document or as supplementary tables and analyses appended to an administrative type budget, the information needed to construct an economic budget.

The fact that few analysts or macro-theorists are likely to agree on the exact form an economic budget should take, or on the scope of activity that should be included in an economic budget, adds strength to any argument in favour of a maximum of flexibility in presenting the government's budgetary accounts. It is unlikely that an economic budget can be devised that will meet the needs of everyone, although this fact in itself is an insufficient reason for not publishing and giving official sanction to such a budget.

Chapter 2 compares the three forms of budget that have received most attention in recent years, the administrative budget, the national accounts budget and the cash budget, and assesses each of these budgets in relation to the criteria of an ideal economic budget developed in Chapter 1. All three of these budgets now appear in the budget document of the United States government, both for the fiscal year most recently concluded and, on an estimate or forecast basis, for the current and immediately ensuing fiscal years.

In Canada, publication of budgetary data on a forecast basis is limited to forecasts of the broadest categories of budgetary expenditures and revenues, made by the Minister of Finance at the time the budget is presented to Parliament. Forecasts of the national accounts budget and of the government's over-all cash requirement are prepared within the government and presumably are available to officials concerned with the formulation of budgetary policy. 2/ The Budget Papers, distributed annually for the information of Parliament, are restricted to the presentation of ex post data, and even in this area they fall short of the requirements of an economic budget. They contain, in addition to information relating to the state of the national economy, a detailed breakdown of the government's administrative budget for the most recent fiscal years, a national accounts budget for the federal government for a similar number of years, but on a calendar year basis, and a statement of the government's cash position—the nearest thing there is in the Canadian system of government accounts to a cash budget.

Chapter 2 concludes with the construction of a cash budget for Canada for fiscal years 1961-62 and 1962-63.

Capital budgeting is examined in Chapter 3, particularly from the point of view of its implications for stabilization policy. While a case may be made for a capital budget by persons concerned with the administration of the government's assets and with the bookkeeping aspects of government budgeting, arguments which favour capital budgeting, however convincing, must be carefully weighed against the serious limitation that a strict separation of current and capital transactions is likely to place on the budget as an instrument of stabilization policy. To be borne in mind is the fact that the government's budget serves a number

of purposes or functions, and that any decision as to the structuring of the budgetary accounts and the method of their presentation can be made only after all points of view have been taken into account and carefully weighed. The form a budget takes is certain to be a compromise and/or a reflection of the priorities that are attached to the various objectives of government budgeting.

Chapter 4 contains recommendations for improving Canada's budget as an economic document.

REFERENCES

1/ Budget of the United States Government for the fiscal year ending June 30, 1942, Washington: U.S. Government Printing Office, p. xiv.

2/ This was written prior to the 1964 budget which contained a budget forecast for fiscal year 1964-65 expressed in terms of national accounts concepts.

CHAPTER 1— AN IDEAL ECONOMIC BUDGET

The objective of this part of the study is not to advocate any particular form of budget to take the place of the existing budgetary presentation in Canada, but to create an awareness of the type of information required to assess the impact of government on the private sector of the economy and to permit intelligent discussion of budgetary policy. As mentioned in the introduction, the goal to strive for is not so much the ideal economic budget as it is the achievement of a maximum of flexibility in the presentation and use of the government's accounts. It can be argued that the economist or layman interested in budgetary policy should be free to choose the data and information he feels to be relevant for the purpose at hand. This means that comprehension rather than the careful selection of information should be the guideline in the presentation of budgetary data. The economic budget, developed below, cannot help but reflect the views and judgment of the writer as to what is and what is not important, and for this reason should be regarded as one of a number of possible budgets. It also reflects an emphasis which is present throughout this study on economic stabilization and the role of budgetary policy in achieving economic stability.

Before examining in detail the characteristics of an economic budget, it might be useful to reflect for a minute on the connection that exists between the government's budget and the level of economic activity. First, it should be recognized that the relationship is two way. Changes in the level of government spending and revenue that are the result of

discretionary action by the government influence, or have a direct impact on, the level of economic activity; also, any change in economic activity will induce, through operation of the built-in stabilizers, changes in both government revenue and expenditure.

Discretionary, in contrast with automatic, budgetary policy must be looked for in changes in such variables as tax rates, exemptions, levels of planned expenditure, etc., rather than in observed increases or decreases in budgetary expenditure and revenue. These policy variables through which discretionary budgetary policy is implemented are, unfortunately, hidden in, or obscured by, the transactions entering into the budget. The distinction pointed out here between exogenous (discretionary) and endogenous (induced) changes in government expenditure and revenue is crucial if the budget is to serve, as it must, as the focal point of countercyclical fiscal policy.

Closely related to the above is the common fallacy of implying something about the direction of fiscal policy from the size of, or changes in the size of, the budget surplus or deficit. In its simplest manifestation the fallacy associates a budget deficit with an expansionary fiscal policy and a surplus with a policy of fiscal restraint. The budget's balance—surplus or deficit—taken by itself tells nothing about the impact of discretionary fiscal policy. A deficit during a period of declining economic activity may be attributed largely, if not entirely, to the operation of the built-in stabilizers of the fiscal system. It is even possible that a substantial budget deficit may exist, yet discretionary fiscal policy be perverse in the sense of having an impact on the level of economic activity just the opposite to that needed or required for stability purposes. Similarly, during a period of rising

prices and money incomes, a budget surplus reveals little, if anything, about the type of discretionary fiscal action taken by the government to curb inflationary pressures. A surplus in such a situation may also be fortuitous, reflecting the operation of built-in stabilizers that causes taxes and certain components of government spending to vary automatically with changes in economic activity.

Strictly speaking, each expenditure and revenue item contained in the budget should be examined to ascertain the impact of the budget on the level of economic activity, since each budgetary transaction, expenditure or revenue, differs in its ability to generate or destroy income. For example, $50 million collected in personal income taxes will have a greater deflationary effect on the economy than an equivalent amount collected in the form of succession duties. Likewise, a dollar spent on transfer payments to the poor is likely to be more effective in generating new income and employment than a dollar of government expenditures utilized in the acquisition of an existing asset. The following budget equation is helpful for illustrative purposes:

$$B = \sum_{i=1}^{m} T_i - \sum_{j=1}^{n} G_j ,$$

where B denotes the budget balance, surplus or deficit, T_i the various types of government revenue (ranging from 1 to m) and G_j government expenditures which range from 1 to n. 1/ The inappropriateness of the budget balance as a measure of the budget's economic impact is evident from this equation if tax and expenditure multipliers are applied to government revenues and expenditures, respectively. The balance (B) would be the same size whether revenues were $4.5 billion and expenditure $5.5 billion or government receipts totalled $7 billion and expenditures

$8 billion. Yet, assuming the normal relationship between the size of the tax and expenditure multipliers, the latter budget situation is clearly the more expansionary. 2/

Ideally, a different weight indicating the size of the appropriate tax or expenditure multiplier should be assigned to each T and G contained in the above budget equation, since in actual fact each type of budgetary revenue and expenditure has a unique impact on the level of national income. If such a system of weights were to be incorporated into the budget equation, either formally or as a mental adjustment by those concerned with the impact of budgetary policy, the value of the budget balance as a meaningful quantum would be even more doubtful. On a more practical plane, a differentiation of budgetary items according to their ability to influence the level of economic activity can be achieved by a proper economic classification of government revenues and expenditures within the budget statement. This "second dimension" of a budget—the distinction between expenditure and revenue transactions having different economic impacts—is a major consideration in the design of an economic budget.

Coverage

What should be included in an economic budget? There are two aspects to this question. First, the government sector or area of economic activity over which the government exercises control must be defined. Secondly, which transactions or types of activity falling within the government sector should be included and which should be excluded from an economic budget must be decided. Again, a measure of flexibility and adaptability is to be preferred to iron-clad and frequently arbitrary

decisions. Should, for example, public (government) enterprises or crown corporations be considered part of the government sector, and, if so, how should their activities be reported—on a net or gross basis? Is the practice, followed in the national income and product accounts, of including most crown corporations and agencies in the business or private sector, 3/ and of showing as government revenue only the profits (net of losses) of these enterprises, an acceptable procedure? From the point of view of stabilization policy, it would seem that a case could be made for treating a crown corporation such as Central Mortgage and Housing (CMHC), whose activities have in the past been geared in some degree to government countercyclical policy, differently from trading enterprises such as the Canadian National Railway (CNR) and the Polymer Corporation that are not affected, at least directly, by government policy aimed at offsetting the cycle. If CMHC were considered as lying within the government sector, then the relevant expenditure and revenue figures would be those representing transactions between CMHC and the private sector rather than between the Corporation and the government.

No simple criteria exist for determining whether the activities of a public enterprise should be included in an economic budget or even presented as supplementary information. Clearly, public ownership by itself is no basis for including an enterprise within the government sector. Equally unsatisfactory is a rule such as that employed in the public accounts whereby all agencies that maintain separate cash balances are deemed, for purposes of public accounting, to lie outside the government sector. One criterion or test that has been suggested focuses attention on the degree of control the government exercises over the operations

of a public enterprise. Enterprises whose affairs are controlled or influenced by the government, either directly through scrutiny of capital budgets, etc., or indirectly through government appointees on their board of directors, would be deemed under this criterion to be within the government sector. 4/ Their activities, expenditures and revenues, or some other measure of their impact on the economy, would therefore be included in an economic budget or appear in the tables or appendices accompanying such a budget. Enterprises so included are assumed to lie within the purview of government policy; they are instruments or vehicles through which policy can be implemented.

Such a criterion for delineating the government sector can be criticized on two grounds. First, the criterion does not lend itself to precise application, since there is almost certain to be differences of opinion as to the amount of control the government exerts over public enterprises; secondly, even if the operations of an enterprise are the object of government control, there is the question of whether such control is exercised in a way consistent with the main goals of economic policy. In fact, the likelihood is that government influence over a public enterprise is not directed toward economic stabilization, a faster rate of economic growth, or balance of payments equilibrium, but rather is directed toward the attainment of some other objective, e.g., a high standard of radio and television broadcasting, an efficient transportation system, or the development of a natural resource. The Post Office is a good example of an agency which, while closer to the centre of government than many crown corporations, is far removed from the government's stabilization policy. The government is directly responsible for the formulation of post office policy, yet it must be assumed that the

public would not tolerate frequent changes in postal rates to conform with the needs of stabilization policy. The example may be extreme, but it serves to illustrate the following point: if the activities of such a public enterprise are to be reported in the budget document, they should be treated as background information and not as active components of budgetary policy. 5/ The same can be said, of course, about much other information or data that is normally included in a budget.

If a public enterprise is deemed to lie within the pale of economic policy it is preferable that its activities be reported in an economic budget on a gross rather than a net basis. Yet a gross reporting of an enterprise's transactions with the private sector raises serious problems, especially if the enterprise is included in the budget proper rather than in an accompanying table or appendix. The net profit or income of a public enterprise is no more an accurate indication of an enterprise's economic impact than is a budgetary surplus or deficit of the government's over-all impact on the rest of the economy. In fact, it is probably less accurate since that element of total expenditure of a public enterprise that is most amenable to short-run policy variation, capital outlay, is not reflected in a net profit or loss figure. About the only purpose served by including the net profits or losses of public enterprises in the budget is to indicate the financial gain or loss incurred by the government by virtue of owning and operating these enterprises. At most, information on this type can be treated only as background material in assessing the government's budgetary policy, in contrast with appraising its financial or asset position. A strong case can be made for presenting the details of a public enterprise's operations—gross receipts and expenditures, capital expenditures, debt operations,

etc.—in an appendix to the budget where they do not affect the over-all budget balance (surplus or deficit), but where they can be consulted by analysts attaching particular significance to them. Such a treatment of public enterprises would leave the budget proper to transactions that might be defined loosely as "general government".

The so-called trust and pension funds or accounts administered by the government are also something of a problem. As in the case of public enterprises, the dividing line between the government and the private sectors is by no means clear. Strictly speaking, trust and pension funds are, by definition, outside the realm or field of government policy making. They could be administered just as easily, it might be argued, by trustees or agencies in the private sector. Yet is is recognized that at least a few of these funds, the Unemployment Insurance Fund, in particular, have an important impact on the level of economic activity and, furthermore, that the government has from time to time altered, sometimes for countercyclical purposes, the basis on which they operate. While inclusion of the Unemployment Insurance Fund and the Old Age Security Fund in an economic budget seems easy to justify, if for no other reason than the fact that they tend to affect significantly the government's cash requirement, the same cannot be said for sundry other trust accounts and funds, including government pension and superannuation funds. The latter, too, however, affect the government's cash position, increasing or reducing the volume of debt transactions associated with a given level of government activity. Trust and pension accounts give rise to a great number of intragovernmental transactions that must be eliminated if budget data are to be a true reflection of the interaction between the government and private sectors. 6/

A comprehensive statement of the government's budgetary operations will include transactions that affect the level of demand indirectly through changes in the liquidity of the private sector, as well as directly through changes in government spending and the level of taxes. The national accounts budget, as will be noted in greater detail in Chapter 2, contains only the latter type of transaction, i.e., transactions which in the terminology of the theory of income determination are either income generating or income destroying. Excluded are such capital items as government loans and loan repayments, capital transfers and transactions in existing assets—buildings, land, etc. Loan transactions, because they tend to be associated with monetary and credit policies rather than with fiscal policy, are frequently ignored in discussions of the budget and budgetary policy. Yet decisions affecting their amount are taken not by the monetary authority but by the same group of decision makers that determines fiscal policy. Government loans to the private sector, although they do not alter the net worth of those who receive them, do affect propensities to spend, and hence the level of economic activity. Loans and loan repayments, because their economic impact is likely to be asymmetrical, especially if government lending is employed as a countercyclical measure during periods of slack demand, should be shown separately in an economic budget, that is, on a gross rather than on a net basis.

While few economists would deny that the purchase by the government of, say, an existing office building has a stimulating effect on economic activity, it is more difficult than in the case of government loans to say anything precise about the magnitude of the impact created. The purchase itself increases the liquidity of the private sectors and,

assuming that private asset holders adjust to the new situation and that no offsetting monetary effects come into play, downward pressure on interest rates can be expected. A more important influence on the level of economic activity is likely to come from an increase in demand for office space that may eventually or within a short period of time result in the construction of new office accommodation. This would be the case if the government purchased the building for the purpose of occupying it, in which case existing occupants would be forced to find accommodation elsewhere. Under conditions of full-resource utilization, the purchase by the government of existing buildings or other reproducible assets may well have an economic impact similar to that resulting from the purchase of new goods. When resources are unemployed, however, the stimulus provided by government purchases of existing assets is likely to be much smaller.

Inclusion of capital items in an economic budget raises the question of whether all or part of the government's debt transactions should also be included, although not necessarily on the same basis. A possible argument for doing so might be that the economic impact of a reduction in publicly held debt is similar to that resulting from a government purchase of land. Both are felt through an increase in private-sector liquidity. It has also been argued that long-term government borrowing from the public differs little in its impact from taxation. 7/ A more convincing argument for including transactions or changes in debt in an economic budget stresses the importance for measuring the economic impact of budgetary policy of the manner in which a budgetary deficit is financed or a surplus is disposed of. A deficit financed by borrowing from the central bank will tend to be more expansionary than if the government

competes with private borrowers for credit by selling debt to the public. Similarly, the anti-inflationary impact of a surplus will be greater if the excess of receipts over expenditure is added to the government's cash balances or used to retire debt held by the central bank, than if it is employed to reduce the amount of debt in the hands of the banking system or the general public. Information on changes in the distribution, as well as in the size, of the public debt during the budgetary period is needed if a complete assessment of the budget's impact on the economy is to be made.

Government debt transactions can be incorporated into an economic budget or budget document in a number of ways. These range from the procedure followed in West Germany, the Netherlands and Australia of treating the proceeds from the sale of long-term government borrowing and repayments of long-term debt as a special category of budgetary receipts and expenditure, 8/ to inclusion in the budget document, as an appendix to the budget proper, of a summary of the government's financing operations thought to have an important bearing on the effectiveness of budgetary policy. The Norwegians employ a variation of this latter approach. Included as an integral part of the Norwegian budget document is a review of the existing state of liquidity of the economy, as well as a forecast of liquidity conditions under which a proposed budgetary deficit would have to be financed or a surplus disposed of. 9/ On the basis of this forecast the government outlines the type of debt or financing policy that it feels to be consistent with the objectives of fiscal policy enunciated elsewhere in the budget document—an action that suggests a greater predilection to engage in official forecasting and a more complete integration of monetary, debt and fiscal policies than can

be said to exist in Canada. There is no reason, however, why information pertaining to debt policy and the financing or disposition of a budgetary deficit or surplus cannot be presented on an ex post basis in a budget document.

Timing

Ideally, a budget designed for purposes of economic analysis should report transactions at the time their impact is felt in the economy or as near to this time as possible. Achievement of this objective is complicated by two factors. First, some budgetary transactions (e.g., corporate income taxes) are useful for analytical purposes if reported on an accrual basis, while others are better or more satisfactorily treated on a cash basis; secondly, transactions that require accrual reporting must also be available on a cash basis if anything approaching a cash requirement or measure of the budget's liquidity effect is to be obtained. The first consideration assumes importance only if significance is attached to uniformity in the treatment and presentation of budgetary data. 10/ It is probably true to say that the need for uniformity of treatment is less in the case of an economic budget than a budget whose chief function is financial accountability and control. The need for both accrual and cash data in an economic budget can be met satisfactorily only by including one or the other, depending on the time reference of the budget, as supplementary or ancillary information.

Timing presents most difficulty on the expenditure side of the budget where the impact of fiscal action may be felt many months and possibly years before an expenditure item, either on an accrual or cash basis, appears in the budget. In areas of government procurement where the

production period is long and production to order rather than to stock is the rule, the real stimulus to productive activity comes with the government's placement of an order or letting of a contract, and not at the time goods are delivered to the government or payment for them is made. It is even possible that the initial impact of an increase in government spending may be felt at the time funds are appropriated by Parliament or at the time a new spending programme is approved, in anticipation of contracts to be let at a later date. A new order or contract is almost immediately reflected in an increased demand for raw materials, labour, working capital, intermediate goods, etc., with the result that by the time production of a government-ordered good is completed, new incomes will have been generated and much of the direct impact of the increase in government spending will have already been felt.

If it is assumed that part of this increase in income will be spent on consumer (and capital) goods soon after it is received, then some of the secondary or multiplier effects of an increase in government spending may also be felt before an actual outlay or expenditure by the government takes place. Except for the liquidity effects associated with the movement of cash between the government and private sectors, actual payment or cash outlay for government purchases may constitute, from the point of view of economic impact, the final act or stage in the government spending process.

The inadequacy of a cash budget or of any other budget that reports government spending on a cash basis can be illustrated by means of an example showing the timing of the impact on GNP of a decision by the government to increase spending on goods produced to order. The illustration takes place within the framework of the national accounts, and

it is assumed somewhat unrealistically, that government expenditures are recorded strictly on a cash basis and, furthermore, that payment takes place at the time of delivery, i.e., there are neither delays in payment nor cash payments in advance of delivery (progress payments). It is assumed that no adjustments are made to place government expenditure on an accrual basis or to report government purchases of goods in the period in which production takes place rather than when payment is made.

Assume, for purposes of illustration, that the government embarks on a spending programme of $50 million and places contracts for this amount with private firms, expecting delivery of goods from contractors to be made a year later. The government spending process entailed in this expenditure programme can be divided conveniently into three stages or steps. 11/ Stage 1 involves the placement of contracts and the generation of minor productive activity such as might be associated with "make ready" work prior to quantity production, while stage 2 encompasses the period during which quantity production takes place. Stage 3 includes the delivery of goods and the payment of contractors by the government.

Income generated by the new contracts prior to delivery of the goods to the government appears in the national income and product accounts as inventory accumulation in the business sector and hence as an increase in the investment component of GNP. In the initial phases of production, inventory investment will be largely or wholly in raw materials, but as production progresses and more and more value is added, investment in inventories increases and a larger and larger proportion of this investment is represented by goods in process. At the time production is completed,

but before delivery and payment, the entire value of the government-ordered production appears in the national accounts as business investment—investment in inventories of finished products—and GNP will have increased by the full contract price of $50 million. Actual payment of contractors by the government, the transaction that appears in a cash budget, has no effect on GNP or the level of economic activity. There are offsetting changes in the components of GNP only at stage 3 of the spending process.

Table 1-1 shows the impact on GNP and its components of an increase in government orders of the magnitude mentioned above. As a means of stressing the continual accumulation of inventories of raw materials and of semi-processed and finished products that takes place between the time contracts are let and the time of delivery, some addition to inventories is shown in stage 1, suggesting that the wheels of industry begin to turn and productive activity gets underway before full-scale production is begun. It should be pointed out that the example illustrated in Table 1-1 takes into account only the impact or primary effects of a government spending programme. If secondary or multiplier effects were considered, they would appear in the table as consumer expenditure under the column "All other" and, of course, as further additions to business investment both in the form of increased inventories and increases in fixed investment.

The foregoing suggests that even the accrual method of accounting is unsatisfactory for measuring the impact of government spending in the case of procurement and expenditure involving a long lead time between the time an order is placed, or a contract is let, and delivery of the goods to the government. To be complete, a budget document must therefore

Table 1-1

Impact of Government Spending Programme

on Gross National Product and its Components

(millions of dollars)

Stage of Spending Process	Investment in Business Inventories	Government Purchases	All Other	Gross National Product
1. Contract placement	+5	---	---	+5
2. Production	+45	---	---	+45
3. Payment	-50	+50	---	---

Source: Adapted from Weidenbaum, Government Spending: Process and Measurement, p. B8.

include, preferably in tables accompanying the budget statement, information on the value of government orders placed and contracts let. Contract and order data are also useful in analyzing the historical record of fiscal changes, especially where emphasis is on the timing of changes in government spending over the course of the cycle.

There is also the question of the proper treatment of spending decisions that are not fully reflected in contract and expenditure data until two, three or more years after they have been made. A decision to embark on a major expenditure programme may have few, if any, consequences for the current year's budget, but is likely to commit the government to spend at a more or less predetermined rate in succeeding years until the programme is completed. The St. Lawrence Seaway is a good example of this type of continuing programme that spans a number of fiscal years and

whose impact on the economy in any year can be considerably greater than the level of expenditure would seem to suggest. The initial impact, in particular, of continuing programmes is likely to be disproportionately large compared to early cash outlays and therefore tends to be obscured in most forms of budgetary presentation. What is needed is information on new commitments entered into by the government, as well as some indication of the time pattern of expenditures expected to arise from these commitments. Estimates of future outlays, published at the time a public works project or procurement programme is embarked upon, could be adjusted later, if necessary, to accord with changes in the target date for completion, price changes, or alterations in the phasing of long-range spending programmes.

In addition to providing information on the size and timing of the impact of government spending decisions, commitments data serve another important function: they provide an important insight into the flexibility of the government's over-all expenditure programme. Like expenditures under statutory appropriations, expenditures associated with continuing programmes represent an element of total government expenditure over which fiscal authorities have little year-to-year control. At the present time the Canadian government publishes no information on future commitments, nor does there exist in Canada anything comparable to the United States government's "new obligational authority" which permits government agencies to incur obligations (authorize contracts, etc.) but not to spend funds in excess of the amount appropriated by Congress in any fiscal year. 12/

The appropriate time reference for government receipts is determined by the reaction date of the private sector to each type of tax and non-tax payment to the government. As suggested earlier, this is likely to

mean that a budget designed primarily to show the impact of tax changes on the economy will contain a mixture of cash and accrual items. The problem, however, is not so much a problem of bringing together in a single budget transactions with different time references, as it is of deciding on what basis a particular transaction should be reported. The problem is to a very large degree a reflection of the inadequacy of present-day theory, especially the theory of corporate decision making. For example, economists are of two minds about the impact of changes in the corporation income tax, with one group emphasizing changes in tax liability (tax accruals) as the relevant variable affecting corporate behaviour and another group holding that it is changes in liquidity (tax payments) that cause corporations to alter investment plans. The national accounts budget reports corporation income taxes on an accrual basis, while the concept of a cash budget would seem to favour a theory of corporate behaviour that attaches significance to the liquidity effects resulting from a tax change. The objective here, as in the case of coverage, is achievement of a maximum of flexibility in the presentation of budgetary data. Wherever possible, the choice between cash and accrual data should be left to the user. 13/

Classification

As mentioned earlier, a fairly detailed breakdown of government expenditures and receipts is needed to assess the impact on the economy of any given budgetary policy or level of expenditure and revenue. This is because the various ways in which the government can spend and collect revenue affect differently, or have a different impact on, the level of economic activity and prices. One of the purposes of an economic budget is to present the economic analyst and policy maker with as much detail

as possible on the economic nature or characteristics of government expenditures and receipts. The best way of achieving this purpose is to classify budgetary transactions according to their relative impact or effect on the private sector of the economy. An economic classification of government expenditures, for example, would distinguish between presumably "high-powered" outlays on the construction of new social capital, or on transfer payments to the unemployed, and expenditure on the purchase of existing assets that is likely to have less impact on the economy. On the revenue side of the budget, a similar distinction can be made between various types of taxes and other sources of revenue according to the deflationary impact they can be expected to have on incomes.

A suggested economic classification for the principal transactions that might appear in an economic budget is given in Table 1-2. Except for the inclusion of transactions in financial and existing real assets (items 7, 8, 13, 14 and 15) and the distinction between current and capital expenditure, the budget depicted in Table 1-2 is similar to the national accounts budget in both coverage and the classification of transactions (see Chapter 2).

A budget designed to meet the needs of economic analysis and policy making must also provide a breakdown of government expenditures by function or purpose. A functional classification of expenditures is particularly useful where emphasis is on the effect that the government sector has on the allocation of resources and on the economy's long-term growth potential, rather than on the level of economic activity in the immediate short run. No fast rules exist for classifying government expenditures by function.

Table 1-2

An Economic Classification of Budgetary Transactions

Receipts		Payments	
1. Personal income taxes		9. Current expenditure on newly produced goods and services	
- Withheld	$ 000	- purchases from private sector	$ 000
- Other	$ 000	- direct services	$ 000
2. Corporate income taxes	$ 000	10. Gross capital formation (expenditures on newly produced capital goods)	$ 000
3. Indirect taxes	$ 000	11. Transfer payments	
4. Estate taxes	$ 000	- to persons	$ 000
5. Investment income	$ 000	- to other levels of government	$ 000
6. Social security contributions, contributions to government pension funds, etc.	$ 000	12. Interest on the public debt	$ 000
7. Proceeds from sale of existing assets	$ 000	13. Capital transfers (net)	$ 000
8. Repayment of loans and advances	$ 000	14. Purchases of existing assets	$ 000
		15. Loans and advances to private sector	$ 000
		Total Payments	$ 000
		Deficit (-) or Surplus (+)	$ 000
Total Receipts	$ 000		$ 000

The exact categories used will depend to some extent on the scope of government activity and on the type of spending programme or activity that is considered to be economically (and politically) significant. The United Nations, as part of its programme to standardize the public finance statistics of member countries, recommends the following functional categories: 14/

education

health

other social services (e.g., social security, special welfare services)

economic services (e.g., agriculture, fuel and power, transportation, manufacturing)

defence

general services.

This classification of expenditures, even allowing for the possible breakdown of individual categories, is too general to serve as more than a guide. Each country is likely to have its own problems and requirements in arriving at a satisfactory system for classifying government expenditures by function. For example, in a federal state such as Canada, transfers to lower-level governments that are not made for specific purposes (e.g., unconditional grants, payments under tax-sharing agreements, subsidies, etc.) defy functional classification. They must therefore be shown as being unallocable or as belonging to a special category of their own. Inclusion of a category entitled "transfers to provinces and municipalities" in a functional breakdown of federal government expenditures is, strictly speaking, to mix functional and economic classifications.

A suggested functional breakdown of federal government expenditures (or payments if the budget concept includes loans and other financial transactions) is as follows:

defence

veterans' services and benefits

health, welfare and social security

- hospital care
- family allowances
- aid to unemployed
- aid to aged persons
- other

education

agriculture

- stabilization of farm prices and incomes
- conservation of agricultural resources
- other

resources and industrial development

- research
- conservation and development of resources
- other

transportation and communications

- air services
- railway and steamship services
- marine services
- postal services
- other

international co-operation

general government

- public debt charges
- general administration
- other

payments to provincial and municipal governments

unallocable.

Except for the detail shown within categories and the inclusion of a special category for agriculture, the above breakdown of government expenditures or payments does not differ significantly from the systems of classification by function currently employed in Canadian government publications. 15/ However, in order to preserve the distinction between a functional and economic classification of expenditures as much as possible, public debt charges have been included under "general government" rather than shown as a separate functional category as is done in these publications. Preservation of this distinction is desirable if use is to be made of an economic-functional, cross-classification of government expenditures or payments.

Forecasting

The word "budget", by definition, implies a forecast or the making of certain assumptions about events in the future. Even governments that display considerable reluctance to engage in explicit forecasting or to publish an official forecast of economic conditions find themselves in the position of having to make implicit assumptions about the future as part of the budgetary process. There is no escaping the necessity of economic forecasting in all areas of government action that have their effects in the future. In this regard budgeting is no exception. The question under discussion is not whether governments should engage in economic forecasting, for it is seen that a certain amount of forecasting is inevitable, but whether forecasts used as a basis for policy formulation should be published and given official sanction.

Practice varies greatly among Western countries with respect to the degree of publicity given to the economic forecast underlying the budget

and economic policy in general. In Canada, public revelation of government forecasting has been restricted pretty much to the traditional forecast of GNP contained in the budget speech. In the Netherlands and the Scandinavian countries, on the opposite extreme, national economic budgets are drawn up annually, forecasting not only total demand and its major components, but also important variables affecting supply. 16/ Opinion in the United States regarding the desirability or value of an official forecast has wavered since the War between these two extremes. In the early postwar period there was a brief flirtation with the idea of a national economic budget as a forecasting technique, 17/ and the Administration's willingness to engage in explicit forecasting and target setting was revealed by the contents of the President's first economic reports to the Congress. Subsequent reports, however, engaged in less and less forecasting and projecting of trends and by 1954 commentary on the economic situation was restricted largely to a review of past and current developments. More recently, a new willingness on the part of the United States government to state explicitly at least the assumptions regarding changes in GNP, personal income, etc., upon which policy decisions are based, is clearly discernible. The 1964 budget document, for example, sets forth three such "economic assumptions" used in forecasting government revenue. 18/

The idea of an official forecast or prognosis of economic conditions is relatively novel on this continent and has not, as yet, been fully aired in the arena of public discussion. It is recognized at once that the question of giving official standing to an economic forecast is related to the more fundamental question of the reliability of forecasting as a technique and as a basis for policy making. This latter question is

beyond the scope of this study and therefore must remain unanswered. The fact remains, however, that governments, so long as they have any economic policy at all, must engage in economic forecasting regardless of how unreliable a technique it may be. Because economic forecasters are sometimes wrong, it does not follow that governments, who are unlikely to be any more adept at gazing into the future than private forecasters, should refrain from publishing the forecast used in arriving at policy decisions. The argument that the government should not concern itself with economic forecasts that at best are tenuous and uncertain, is not, by itself, convincing.

A more substantive argument against an official economic forecast or a clear statement of the assumptions upon which economic policy is based is the possibility that a forecast, especially if given official sanction, will be self-fulfilling or will aggravate an economic situation that would develop in the absence of such a forecast. It is claimed that an optimistic forecast is likely to stimulate plant and equipment expenditure, and inventory accumulation, the very sources of instability and imbalance in the economy. A pessimistic prognosis, on the other hand, by confirming the fears of decision makers, might make a downturn worse than it otherwise would be. A pessimistic forecast by the government might even precipitate a downturn if taken seriously by private decision makers, causing them to revise their own forecast of continuing expansion or favourable economic conditions. Little empirical evidence can be marshalled either in support of or against the argument that official forecasts tend to be self-fulfilling and therefore destabilizing.

The argument seems implausible if for no other reason than that a government is unlikely to forecast a recession or period of rapidly rising prices without at the same time announcing a programme aimed at maintaining economic stability. Enlightened policy formulation requires at least two hypothetical forecasts, one assuming no change in any of the policy parameters affecting economic conditions, and the other under the assumption that the policy changes being considered are implemented. Granted that an unfavourable forecast by the government may reinforce the pessimism of private decision makers, it is also possible that the announcement of vigorous countercyclical measures may strengthen the confidence of others. 19/ The net effect of an official forecast accompanied by the announcement of remedial policy measures may therefore be stabilizing rather than destabilizing.

The success of a countercyclical fiscal policy depends in no small measure on the public's belief that the government has within its control policy instruments capable of achieving economic stability and which it is determined to apply with vigour if and when the need arises. A strong commitment by the government to a policy of full employment and price stability, backed up by a record of vigorous action whenever the performance of the private sector threatens to fall short of these goals, offers the greatest assurance of stability in the future. If the government succeeds in building confidence in the stability of the economy, it is possible that in time the underlying causes of instability may disappear. In such a situation it would be the knowledge that the government is prepared to take appropriate steps to counteract a recession or boom, rather than the steps themselves, that would act as a fly-wheel regulating the level of aggregate demand.

It is unlikely that this success in countercyclical budgeting can be achieved without some effort to educate the public as to the goals of stabilization policy and the measures being taken to bring economic events in line with them. Much of the impact of a policy change may be lost if insufficient publicity is given to it and if the government fails to relate the change to well-defined policy goals and to the current economic situation. One way of achieving the latter is to present to the public at the time budget changes are announced a forecast of economic conditions, assuming no change in the budget, as well as a forecast that takes into consideration budget changes. The government need not associate itself with the former forecast except as a state of affairs toward which the economy is likely to gravitate in the absence of offsetting action by policy makers. The government's official forecast, into which would be built policy changes designed to combat an unsatisfactory economic situation, would be more optimistic than private forecasts. As mentioned already this fact in itself is likely to contribute to economic stability.

A clear statement by the government of the assumptions upon which its countercyclical policy is based serves as a check on policies or measures that are only indirectly related to economic stabilization, but which nonetheless can be pro-cyclical in their effects. An increase in the old age security pension at a time when inflationary pressures are a threat to continued price stability is an example of an action taken by the government that, while justifiable on all other grounds, may be inconsistent with policies aimed at combatting inflation. Although disclosure in the budget document of the underlying assumptions of countercyclical fiscal policy does not resolve the difficult problem of having

to establish priorities among the various objectives of economic policy, it nevertheless increases the chances that policies enacted will be geared to a consistent set of objectives that reflect these priorities. This view is based on the assumption that closer public scrutiny of the decision-making process in government improves the quality of economic policy by forcing policy makers to give more careful consideration to the over-all impact of their decisions. Ad hoc decision making can be discouraged by the requirement that all policy changes be justified in terms of declared policy objectives and the prospects of these objectives being attained in the absence of a change in policy.

Note on National Economic Budgeting

National economic budgeting offers an example of the use that can be made of economic forecasting in the formulation of economic policy. Developed in the Netherlands and Norway after the War, national budgeting was intended to ensure that total planned consumption and investment in any period do not exceed what is achievable given the supply of labour and capital, possible gifts under the Marshall Plan, foreign exchange, etc. The national budget of these two countries, and of Sweden where the system was also introduced in the early postwar period, consists of estimates for the coming year of total supply of goods and services (GNP plus imports) and of the components of total demand. 20/

These estimates can take one of two forms: either they can indicate current tendencies in the relationship between demand and supply in the economy, giving an estimate of the inflationary or deflationary gap to be expected in the ensuing fiscal year, or they can show how the inevitable agreement between the supply of goods and services and the use of this

supply will be reached on the assumption that corrective action either will or will not be taken by the government. For example, if all the components of demand, estimated in advance, are added up and are found to exceed the probable supply by a given amount, then this surplus of demand can be recorded as an inflationary gap. Or it is possible to go a step further and record what is expected as a result of the tendencies observed, such as higher prices, increased imports, a running down of inventories, etc. 21/ The national budget, as a concise statement of the economy's expected performance, is customarily based on the latter rather than the former approach, although in the process of preparing the budget consideration is given to both the size and nature of the discrepancy or gap between total demand as reflected in public and private spending plans and estimated supply. 22/

The technique of national budgeting or economic forecasting in Norway and Sweden differs in one important respect from that practised in the Netherlands. In Scandinavia, all non-government variables entering into or used in the preparation of the national budget are arrived at on the basis of information obtained from inquiries among decision-makers and organizations in the private sector— producers, investors, labour organizations, importers, etc. This procedure emphasizes a salient characteristic of national economic budgeting in Norway and Sweden today, namely, that the national budget, subject to the constraints imposed by the inconsistency of individual plans, represents a statistical summary of decentralized intentions. The government variables represent the intentions of local government authorities as well as decisions taken by the central government both with respect to the normal operations of government and the implementation of its economic policy. The magnitude of the government's policy variables is determined with the object of

eliminating or mitigating the consequences of disequilibrium conditions in the intentions of the private sector. Economic policy is forged, so to speak, out of the process of reconciling, at a minimum cost in terms of unemployment, price changes, etc., the divergent plans or intentions of private decision makers.

In the Netherlands, on the other hand, a system of econometric equations based on historical relationships is used to obtain many of the variables that the Scandinavian countries build up from primary data collected directly from decision makers. 23/ The Dutch method of economic forecasting by means of an econometric equation system first of all requires a prediction of the system's exogenous variables or higher-order forecasts, in which sense it does not differ greatly from the less sophisticated techniques of Norway and Sweden. Given the value of these exogenous variables, however, the system of equations employed by the Dutch yields values for some twenty-seven endogenous variables, many of which do not have counterparts in the Scandinavian national budgets (e.g., labour productivity, employment, labour force, etc.). Internal consistency of the Netherlands' economic forecast is achieved automatically from the economic relationships used in its formulation. This is in marked contrast to the trial-and-error, essentially manual, method employed to obtain consistency among the variables appearing in the Norwegian and Swedish national budgets.

National economic budgeting as practised today in Scandinavia and the Netherlands should not be confused with economic planning as found in socialist countries or countries whose economy, although nominally free enterprise, is tightly controlled by the state. 24/ A national budget is not a national economic <u>plan</u> in the sense that it consists of a set of

targets (ends) and variables (means) over which the government has control. It is not an instrument whose every component is determined by government decision. Quite the contrary, the governments of countries that engage in national budgeting possess no means of "enforcing" their budget, that is, of ensuring that actual events conform to budget estimates. Furthermore, the government is limited in what it can do when budget estimates, representing the decentralized intentions of the private sector, are at variance with the government's wishes. Elements of "central co-ordination" that characterized national budgeting in the early postwar period were gradually diluted as restrictions were removed on investment, imports, etc., and decision making became increasingly decentralized. 25/ A national economic budget is correctly regarded as a forecast or prognosis of decentralized intentions.

National budgeting cannot be judged on the basis of its forecasting ability. 26/ More basic is the question of whether anything is to be gained in terms of the objectives of economic policy by publishing an official forecast with as much detail as a national economic budget. This question was discussed above in relation to the more conventional type of economic forecast that is used in Canada and other countries as a guide to policy formation. The value of national budgeting is to be found not so much in its role as a forecast of events to come, as in the knowledge and experience that is gained by government policy makers in the process of its preparation. These gains, moreover, would seem to be about the same whether or not budget estimates or forecasts are realized and whether or not the national budget is made public.

As a procedure for the design of economic policy, national budgeting, particularly the variety practised in the Scandinavian countries, is superior to the ad hoc approach to economic policy that seems to be followed in many countries. First, national budgeting encourages and makes possible the careful consideration of the assumptions that must underlie all policy decisions. Economic policy formulated within the framework of a national economic budget is more likely to be based upon a consistent set of assumptions regarding developments in the private sector than is policy decided on an ad hoc basis and without the benefit of an integrated appraisal of the economy as a whole. Secondly, the systematic arrangement of facts and intentions that is an essential part of national budgeting ensures that policy makers take all relevant information into account, thereby reducing the risk that side effects or consequences of policy changes might be overlooked. The danger of partitioning economic problems or disturbances within the context of partial equilibrium analysis, so prevalent with ad hoc decision making, is greatly reduced by a system of national budgeting that relates partial problems and activities to those of the entire economy. 27/ Finally, national budgeting, by permitting ready comparison of forecast and realized values, affords the policy maker the opportunity to study his successes and failures and to benefit from past experience. Quite apart from the net advantages or disadvantages of explicit economic forecasting, national economic budgeting has the effect of improving the quality of economic policy.

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1/ See Bent Hansen, The Economic Theory of Fiscal Policy, trans., by P. E. Burke, London: George Allen and Unwin, 1958, pp. 42-43.

2/ Assuming a tax multiplier of 4 and an expenditure multiplier of 5, the fiscal leverage obtained from the first situation is $9.5 billion [($5.5 x 5) - $4.5 x 4)] compared to $12 billion [($8 x 5) - ($7 x 4)] in the latter case.

3/ The exceptions are Atomic Energy of Canada Limited, Crown Assets Disposal Corporation, Defence Construction (1951) Limited, National Battlefields Commission, National Capital Commission and the Canadian Broadcasting Corporation.

4/ CF. A Manual for the Economic and Functional Classification of Government Transactions, New York: United Nations, Department of Economic and Social Affairs, 1958, p. 27.

5/ See statement by Prof. Carl S. Shoup, Hearings before the Subcommittee on Economic Statistics, Joint Economic Committee, U.S. Congress, 88th Cong., 1st Sess., The Federal Budget as an Economic Document, Washington: U.S. Government Printing Office, 1963, p. 11.

6/ For further discussion of this point, see Chapter 2.

7/ See Richard Goode, "Budget Concepts and Accounting", Review of Economics and Statistics, Vol. XLV, No. 2 (May 1963), p. 132.

8/ The practice varies slightly from country to country. The Netherlands' budget, for example, shows the redemption of inland funded debt as a capital expenditure and proceeds from borrowing as capital revenue. The West German budget, on the other hand, includes proceeds from borrowing as an extraordinary receipt and expenditure on debt redemption as an extraordinary expenditure. The Australian practice is to include loan redemptions and proceeds in budgetary expenditures and receipts, respectively, without any efforts to differentiate them from other expenditure and revenue transactions.

9/ See The National Budget of Norway, 1963, Royal Norwegian Ministry of Finance, Oslo, 1962, Chapter 4, "Monetary and Credit Policy".

10/ On the desirability of treating expenditures and receipts uniformly, see Jesse V. Burkhead, "Budget Classification and Fiscal Planning", Public Administration Review, Vol. VII, No. 4 (Autumn 1947), p. 232.

11/ See Murray L. Weidenbaum, Government Spending: Process and Measurement, private printing, n.p., 1958, pp. B8-B9.

12/ For a description of the term "new obligational authority", see The Budget of the United States Government, fiscal year ending June 30, 1964, Washington: U.S. Government Printing Office, 1963, pp. 124-126.

13/ For a suggestion for deriving an economic budget containing both accrual and cash transactions from a comprehensive cash budget, see Andrew H. Gantt, II, "European Budgetary Experience: Its Implications for the U.S. Budget Presentation", in Hearings before the Subcommittee on Economic Statistics of the Joint Economic Committee, U.S. Congress, 88th Cong., 1st Sess., The Federal Budget as an Economic Document, Washington: U.S. Printing Office, 1963, pp. 315-316.

14/ United Nations, Statistical Yearbook, 1962, New York, 1963, pp. 540-541; Cf. A Manual for Economic and Functional Classification of Government Transactions, p. 37.

15/ See classification of expenditures used in Public Accounts of Canada, for fiscal year ended March 31, 1962, Vol. I, p. 38, and in Dominion Bureau of Statistics, Comparative Statistics of Public Finance, 1956 to 1960, Ottawa, 1960, Table 4.

16/ See note to this chapter (pp. 36-40) for a discussion of national economic budgeting as practised in Scandinavia and the Netherlands.

17/ The original draft of the Employment Act of 1946 called for the drawing up of an annual national economic budget for the United States, but the Act as finally approved by Congress omitted reference to such a budget. Disillusionment with economic forecasters who, with few exceptions, predicted a postwar slump was one of the factors responsible for Congress' rejection of national economic budgeting.

18/ The Budget of the United States Government, fiscal year ending June 30, 1964, p. 50.

19/ See National Planning Association, "Economic Prognosis as Basis of Economic Policy", National Economic Projections Series, Technical Supplement, No. 6, Washington, January 1961, pp. 12-13.

20/ Gösta Rehn, "The National Budget and Economic Policy", Skandinaviska Banken Quarterly Review, No. 2, 1962, pp. 39-40. For a description of national budgeting in Norway, see Joseph Grunwald, National Economic Budgeting in Norway, unpublished doctoral dissertation, Columbia University, 1950; Ronald G. Ridker, National Budgeting in Norway: A Study in Economic Policy Formation, unpublished doctoral dissertation, University of Wisconsin, 1958; and Petter Jakob Bjerve, Planning in Norway, 1947-1956, Amsterdam: North-Holland, 1959.

21/ Rehn, op. cit., p. 41.

22/ For example, see the Norwegian National Budget for 1949, reproduced in Appendix A.

23/ The Netherlands' approach to national economic budgeting is described somewhat summarily in H. Theil et al., Economic Forecasts and Policy, 2nd rev. ed., Amsterdam: North-Holland Publishing Company, 1961, Ch. III, "Postwar Macro-economic Forecasts in the Netherlands and Scandinavia".

24/ See Grunwald, National Economic Budgeting in Norway, pp. 294-301. For an opposing view, see Sumner H. Slichter, "Long-term Economic Trends", American Economic Review, Proceedings, XL, No. 2 (May 1950), p. 468 and "Affirmation of Faith in our Economy", The New York Times Magazine, March 26, 1950, pp. 29-30, both quoted by Grunwald.

25/ Cf. Rehn, op. cit., p. 3.

26/ For an evaluation of the forecasting ability of national budgeting as practised in the Netherlands and Scandinavia, see Theil, op. cit., Ch. III; Ronald G. Ridker, "An Evaluation of the Forecasting Ability of the Norwegian National Budgeting System", The Review of Economics and Statistics, XLV, No. 1 (February 1963), pp. 23-35.

27/ Bjerve, Planning in Norway, 1947-1956, pp. 41-42.

CHAPTER 2—ALTERNATIVE BUDGET CONCEPTS

This chapter of the study is devoted to a critical examination of the administrative, national accounts and cash budgets. All three budgets will be assessed in terms of their usefulness for purposes of economic analysis and policy formulation and not in terms of whatever "non-economic" function a particular budget may serve. With respect to the administrative and national accounts budgets, all references will be to these budgets as presently developed in the Canadian system of public and national accounts. The cash budget will be discussed in more general terms, without reference to any particular form that this budget may take. A cash budget for the federal government for fiscal years 1961-62 and 1962-63 will be constructed to serve as an example of what a cash budget for this country might resemble.

The Administrative Budget

Of the three budgets, the administrative budget is the least suited of all for purposes of economic analysis, having been developed originally as a public accounting or summary of the country's finances. In a sense this budget is something of a historical accident; it has evolved over the years in response to changes in budgetary practice and, not infrequently, to the dictates of political expediency, with the result that it does not give a clear or meaningful picture of any aspect of the government's fiscal or financial operations. The administrative budget in its most detailed form appears as a statement of budgetary revenue and expenditure in the public accounts (see Appendix B). As a statement

of the government's budgetary intentions or fiscal policy for the ensuing fiscal year, with estimates of government revenue and expenditure broken down into economically meaningful categories, this form of budgetary presentation is practically non-existent in Canada. The budget speech, which is the nearest there is to a budget document in this country, contains, as a rule, forecasts of the principal sources of budgetary revenue, but forecasts expenditure only as an aggregate, a situation in contrast to that existing in the United States and many other countries (e.g., France) where forecasts of both sides of the administrative budget are published in considerable detail.

The administrative budget has three major drawbacks as a tool for measuring the economic impact of the government on the private sector. First, the budget presented to Parliament on an ex ante basis by the Minister of Finance and reported in the public accounts on an ex post basis lacks the coverage required to gauge the full impact of the government's fiscal operations. Excluded from the budget, for example, are such transactions as payments into and out of the Unemployment Insurance Fund and the Old Age Security Fund, and loans and advances to the private sector. The Minister recognizes at least some of the administrative budget's limitations in this regard by amalgamating the Old Age Security Fund with the budgetary accounts in presenting his forecasts of revenues and expenditures to Parliament and by drawing attention explicitly to cash outlays and receipts connected with investments in, or loans to, various crown corporations.

A second disadvantage of the administrative budget as an economic budget is related to its time reference or to the timing of individual transactions. The budget reports most transactions involving the ultimate

receipts or disbursement of cash on a cash rather than on an accrual or other basis. The exceptions, however, are noteworthy and tend to reduce the value of the administrative budget for purposes of economic analysis. The first concerns the so-called supplementary period. The practice of charging to budgetary expenditure for the month of March cash payments made during April for the discharge of debts "properly applicable to the old year" constitutes a significant departure from cash accounting that has the effect of turning budgetary expenditures as reported in the public accounts into something of an accounting fiction. Annual expenditure data, as well as monthly data for March and April, are on neither a cash nor a strictly accrual basis as a result of this type of year-end adjustment. Another, though less serious, departure from the cash basis of reporting transactions relates to the treatment of public debt charges. The administrative budget reports interest on the public debt on an accrual basis, i.e., when it is actually earned and not when payment is made or, as was the case prior to fiscal 1951-52, when payment is due. Likewise, loan discounts and commissions are amortized or written off over the life of the loan rather than reported as expenditure in the year in which the loan is made or, in the case of discounts, redeemed.

The third reason why the administrative budget is inappropriate for measuring the economic impact of the government sector is inclusion on the expenditure side of the budget of transactions that do not measure either cash or real flows between the government and private sectors during the period covered by the budget. These are the transactions representing appropriations to and payments into government annuity, insurance and pension accounts, special accounts such as the Colombo Plan

Fund and the National Capital Fund, operating funds, reserves for losses on the realization of assets, etc., and as such are purely bookkeeping entries in the public accounts. Their effect is to distort the level of expenditure as reported in the administrative budget, causing expenditure on particular items or for particular functions to appear higher or lower than is actually the fact. Even worse, some transactions of a bookkeeping nature can be manipulated by the government as a means of influencing the level of total expenditure and hence the size of the budgetary surplus or deficit.

Appropriations to the Colombo Plan Fund, the National Gallery Purchase Fund, the National Capital Fund and the Railway Grade Crossing Fund—the so-called special accounts or funds—appear in the administrative budget as expenditures of the Departments of External Affairs, Citizenship and Immigration, Public Works and Transport, respectively, yet disbursements or expenditure from these accounts in any fiscal year may either exceed or fall short of appropriations to them. For example, the administrative budget for fiscal year 1961-62 showed as expenditure of the Department of External Affairs a $50.0 million grant to the Colombo Plan Fund while actual disbursements from the Fund, reported in the public accounts as a non-budgetary disbursement, amounted to only $39.9 million. The budget over-estimated expenditure on the Colombo Plan by $10.1 million.

A more striking example of the distortion or misrepresentation that can be caused by intragovernmental transactions of the type mentioned above is to be found in the government's recent experience with the Defence Equipment Replacement Account. This account, established under section 3 of the Defence Appropriation Act of 1950, was a device within the public accounts for handling defence materials and supplies which the government

transferred to member countries of the North Atlantic Treaty Organization. At the time the Account was set up it was credited with $195 million, an amount that approximated the value of all defence materials and supplies acquired prior to March 31, 1950, and transferred to NATO countries, on the understanding that credits thus accumulated would be used in subsequent years to purchase equipment and supplies for the Canadian Armed Forces. As it turned out, Parliament voted funds for the Defence Equipment Replacement Account on a regular basis and charged to the Account, and not to budgetary expenditure directly, the cost of replacing military equipment supplied to NATO countries. Table 2-1 (p. 50) shows that annual allotments to the Account during the eight years it was in existence bore little relation to annual disbursements from it.

In years of buoyant revenues and potentially large surpluses, the practice has been to make unusually large appropriations to certain of the pension and annuity accounts and to the reserve for losses on the realization of assets. When the budgetary situation is tight, on the other hand, there has been a tendency to minimize such appropriations. This permits the government to show smaller budgetary surpluses and smaller deficits over the years than would be possible if appropriations to these accounts and reserves were made on a regular basis and without regard to the budgetary situation in any particular year.

The extent to which the government has affected its surplus or deficit position by varying the size of certain bookkeeping transactions is indicated in the following table which shows, along with the forecast surplus or deficit, budgetary expenditures representing only three such transactions— reduction in actuarial deficiency in the superannuation

account, payments to maintain the reserve of the government annuities account and provision for reserve for losses on the realization of assets:

Fiscal Year	Budgetary Expenditures	Forecast of Budgetary Surplus (+) or Deficit (-)
	($ millions)	($ millions)
1946-47	1.0	- 300
1947-48	.3	+ 190
1948-49	86.4	+ 489
1949-50	76.3	+ 87
1950-51	75.7	+ 20
1951-52	75.9	+ 30
1952-53	100.7	+ 9
1953-54	50.1	+ 41
1954-55	.4	+ 4
1955-56	--	- 160
1956-57	100.0	+ 113
1957-58	1.2	+ 152
1958-59	.2	- 648
1959-60	.2	- 393
1960-61	--	+ 12
1961-62	--	- 650

The connection between the amount of expenditures accounted for by these three transactions and the sign (surplus or deficit) and size of the potential budget balance is apparent from the above figures. The temptation to bury or hide part of the surplus in special reserves or accounts was particularly strong in fiscal year 1948-49 when a record surplus of $489 million was forecast, even after approximately $11.4

Table 2-1

Allotments To, and Disbursements From,

The Defence Equipment Replacement Account

Fiscal Years 1951-52 to 1958-59

(in millions of dollars)

Fiscal Year	Allotments	Disbursements */
1951-52	126.4	100.5
1952-53	235.1	165.4
1953-54	289.7	255.1
1954-55	253.4	285.2
1955-56	175.0	167.3
1956-57	133.6	115.9
1957-58	118.4	64.3
1958-59	70.7	231.7

*/ Disbursements equal (1) expenditure for actual equipment replacement for Canadian Armed Forces plus (2) direct cash outlays to purchase equipment for NATO or to train pilots.

Source: Public Accounts of Canada.

million was appropriated to maintain the reserve of the government annuities account and $75 million was set aside as a reserve for losses on the realization of assets. The Minister of Finance spoke of this temptation in the following words:

> Some friends have suggested to me, seeing this surplus in prospect, that I should adopt the device of burying parts of it in some sort of reserve for future expenditure on national defence, national development, or social security. Such an arrangement, they say, would make the surplus less visible and less of a temptation to those who, for one reason or another, feel that taxes should be reduced or expenditures increased, notwithstanding the wisdom of acting otherwise. This could be done.... This would, of course, be simple bookkeeping; it would alter nothing in reality; it would simply complicate a situation that is more easily understood as it is now. 1/

The National Accounts Budget

Unlike the administrative budget, the national accounts budget can be regarded as an economic budget insofar as it was designed to serve the needs of economic analysis and policy making. Conceived in the milieu of Keynesian income and employment theory, this budget included only those transactions of the federal government which were deemed to affect directly the level of national income. Included are all items of government expenditure and revenue of an income generating or destroying nature, including those arising out of the operation of such funds as the Old Age Security Fund and the Unemployment Insurance Fund. Excluded are transactions or fiscal operations of the government which, in the context of a simplified Keynesian model, are not income determining or are thought to affect the level of income only indirectly. These latter transactions include the transfer of existing real assets between the government and private sectors, loans, investments and advances made by the government and repayments of loans, advances, etc. The inclusion of payments into and out of the Unemployment Insurance Fund in the budget has the effect of increasing the sensitivity of government revenue and expenditure, respectively, thereby emphasizing the automatic contribution that the government sector makes to economic stability. The national accounts budget of the federal government for fiscal years 1961-62 and 1962-63 is shown in Table 2-2.

One of the alleged advantages of a national accounts budget is that it attempts to record transactions between the government and the private sector at the time their economic impact is felt. Corporation income taxes, for example, are reported on an accrual rather than a cash basis

Table 2-2

Federal Government Budget, National Accounts Basis

Fiscal Years 1961-62 and 1962-63

(in millions of dollars)

	Fiscal year ended March 31, 1962	1963
R E V E N U E		
Direct taxes		
Persons	2088	2054
Corporations	1264	1312
Withholding taxes	126	132
Indirect taxes	2250	2332
Investment income	392	488
Employer and employee contributions to social insurance and government funds	512	526
Total Revenue	6632	6844
E X P E N D I T U R E		
Goods and services	3054	3060
(Defence)	(1668)	(1670)
Transfer payments to persons (excluding interest on the public debt)	2024	2066
Interest on the public debt	814	892
Subsidies	214	290
Transfers to other levels of government	1096	1120
Total Expenditure	7202	7428
Deficit (-) or Surplus (+)	-570	-584

Source: D.B.S., National Accounts, Income and Expenditure, Fourth Quarter and Preliminary Annual, 1963. Fiscal year data obtained by addition of appropriate quarterly data.

on the grounds that corporate behaviour is affected at the time a change in tax liability occurs rather than when higher or lower tax payments are made to the government. Chart 2-1 shows the difference between accrual and cash reporting with respect to this tax, collections of which can lag several months behind the time tax liabilities are incurred. Personal income taxes, on the other hand, are reported on a cash basis on the assumption that individuals react to a tax change at the time their cash disposable income is affected. In any case, the lag between tax liabilities and collections for the personal income tax is short. The timing of government expenditures in the national accounts budget, however, is less satisfactory. They, too, should be on an accrual basis, but are reported for the most part at the time disbursement is made by the government.

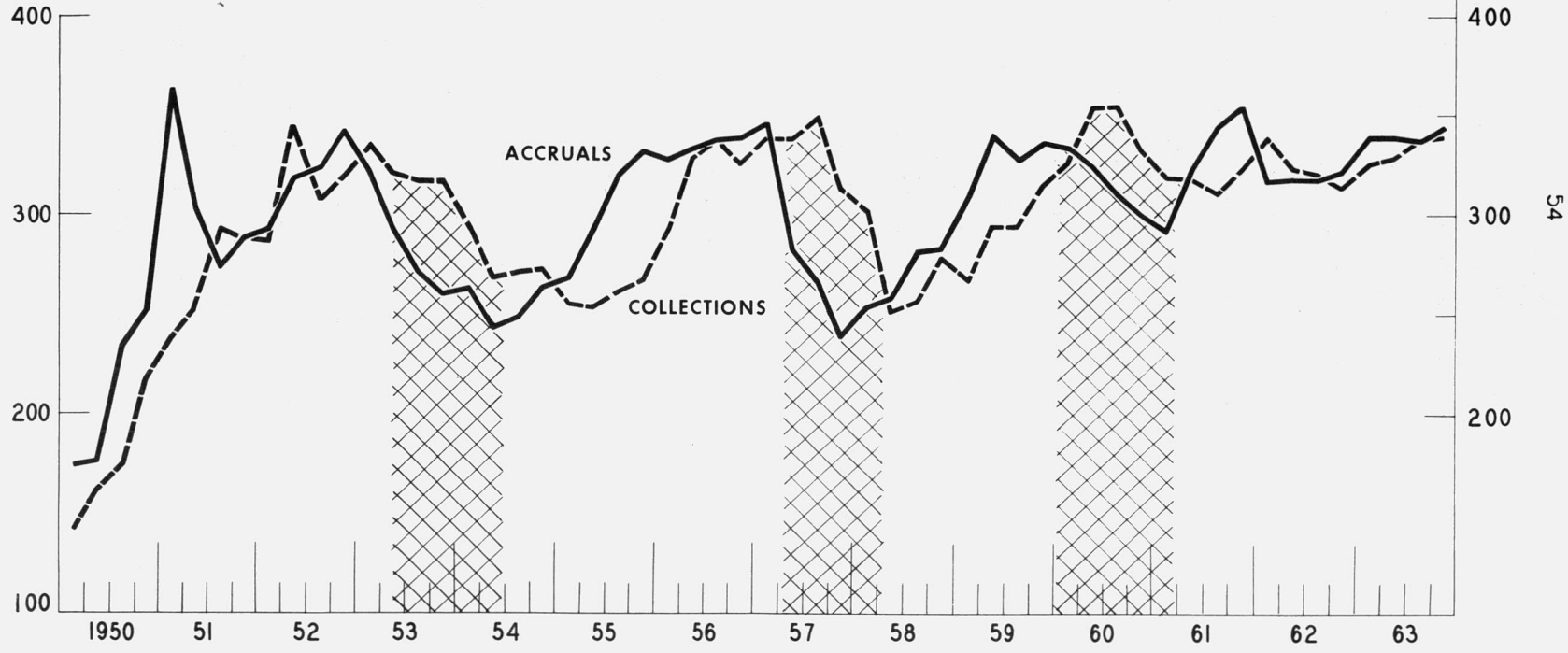
Despite what its proponents say, the usefulness of the national accounts budget as an economic or impact budget is reduced because it does not include certain capital account transactions such as transactions in financial and existing real assets. The importance of recording this type of transaction in an economic budget was discussed in Chapter 1 and will be elaborated upon in the following section on the cash budget. Suffice it to draw attention here to the anomalous situation that exists of excluding transactions in financial and existing real assets from the national accounts budget but including in it taxes that are generally considered to be paid out of private capital account rather than out of income. Estate taxes belong to this category of tax. It would be a mistake to treat these taxes as affecting the level of economic activity in

Chart 2-1

FEDERAL CORPORATE INCOME TAX ACCRUALS AND COLLECTIONS

Seasonally Adjusted

Quarterly - Millions of Dollars



the same way as taxes levied directly on income, or to believe that taxes paid out of capital account are as "high powered" or important a determinant of national income as other forms of taxation. There would seem to be as good an argument for including government loans and advances to the private sector on the expenditure or payments side of a national accounts budget, for example, as there is for showing taxes on capital on the revenue or receipts side. Recognition of the special nature of taxes on capital is to be found in the Danish budgetary system which treats all such taxes as revenue of the capital budget.

The national accounts budget can be criticized on other grounds as well. The inclusion in revenue of profits of publicly owned enterprises, whether these profits are turned over to the government or not, hardly improves the performance of this budget as an indicator of changes in budgetary policy and of the government's impact on the economy. This is particularly true with respect to enterprises that lie clearly outside the government sector, e.g., the Polymer Corporation, Air Canada. If included in an economic budget, net profits of these and similar enterprises should be treated strictly as background information. The net profits of the Bank of Canada require special note. They appear on both sides of the national accounts budget to the extent that they represent interest paid on Bank-held public debt.

Good reasons may exist for preferring the national accounts budget to the administrative budget, or vice versa, if one budget shows consistently, or under certain conditions, a smaller deficit or surplus than the other. For example, the political limitations to a countercyclical fiscal policy that take the form of opposition to large deficits and surpluses are likely to be less if the extremes of budgetary imbalance

can be reduced by choosing one budget over the other. More specifically, it has been argued that a national accounts budget, by showing a smaller deficit than the administrative budget during the early part of a cyclical upswing, lessens opposition to an expansionary fiscal policy during this critical phase of the cycle when economic activity is picking up but when aggregate demand is still in need of support. 2/ Chart 2-2, which shows quarterly budgetary surpluses and deficits of the federal government for the period 1953-63, fails to suggest that any fixed or reliable relationship exists between the size of the government's surplus or deficit as measured by the two budget concepts. The national accounts' budgetary deficit was neither consistently smaller nor larger than the deficit of the administrative budget during the period covered by Chart 2-2. The chart does show, however, a marked tendency for the national accounts surplus to be larger than the surplus as measured by the administrative budget, or for the national accounts budget to show a surplus when the administrative budget is in a deficit position. In the 15 quarters in the period 1953-63 during which the national accounts budget recorded a surplus, the administrative budget either had a smaller surplus or showed a deficit in thirteen. This tendency for the administrative budget to minimize the size of a budgetary surplus is also apparent in Chart 2-3, which compares surpluses and deficits of the national accounts and administrative budgets using annual rather than quarterly data.

The Cash Budget

In analyzing the relationship between the government and private sectors, it is desirable to distinguish between two types of government action that can be taken to influence private spending and hence the level

Chart 2-2

BUDGET SURPLUS OR DEFICIT
National Accounts and Administrative Budgets
Seasonally Adjusted
Quarterly - Millions of Dollars

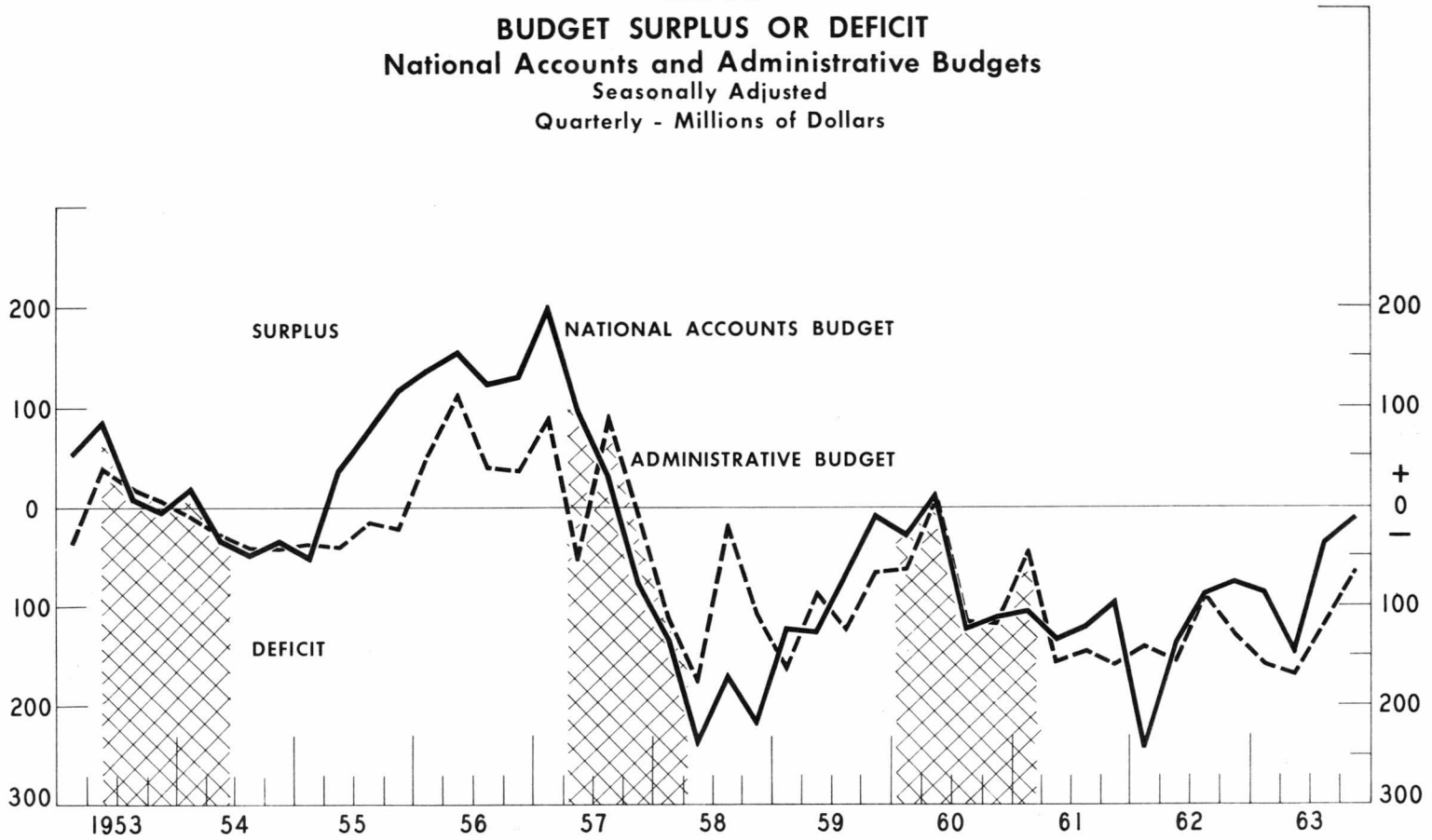
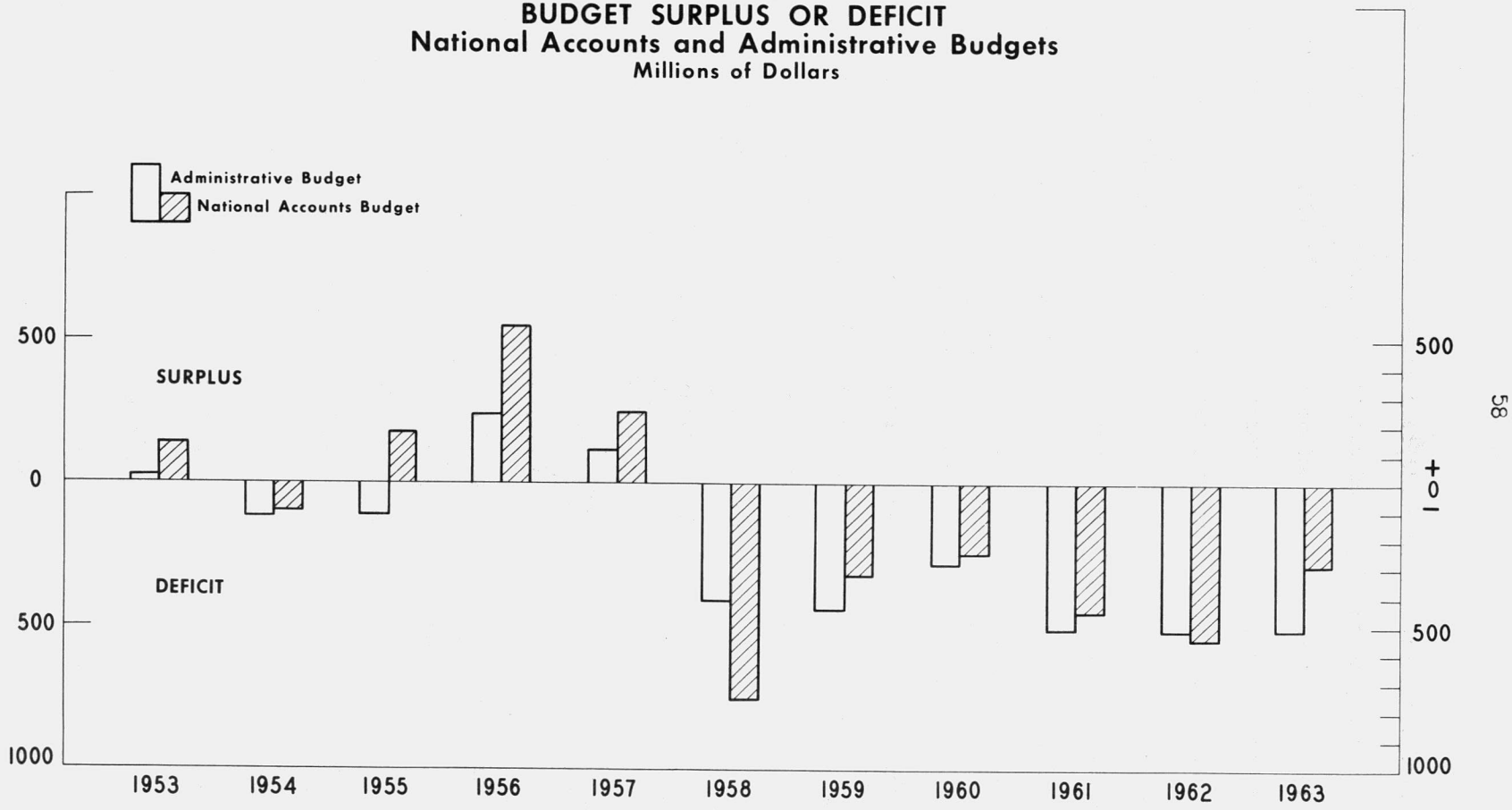


Chart 2-3

BUDGET SURPLUS OR DEFICIT
National Accounts and Administrative Budgets
Millions of Dollars



of economic activity. First, there are measures or policies that affect spending directly through changes in private disposable income brought about by changes in taxes and/or through changes in government spending. These policies are commonly referred to as fiscal or budgetary policies, since their implementation involves changes in the "fisc" or government budget. The second type of government action or policy aimed at influencing private spending operates indirectly through changes in interest rates and the availability of credit. These latter policies alter the composition of the financial assets and liabilities of the private sector. Their impact is felt through a "liquidity effect" rather than an "income effect" as is the case with respect to fiscal policies. Good examples of measures that affect the liquidity of the private sector are the open-market purchase of securities by the central bank and government loans to private industry or to homeowners. Both of these measures should act as stimulants to private demand and economic activity.

If the concept of "fiscal impact" is restricted to consideration of the income effects of budgetary policy, then the national accounts budget, showing only those transactions of the government that are deemed to affect national income directly, is clearly the best tool available for analyzing the impact of budgetary policy on economic activity. But if one includes as part of the impact of fiscal or budgetary policy indirect as well as direct effects, the concept of fiscal impact, and hence the definition of fiscal policy, must be broadened to include both income and liquidity effects. Interest in these indirect effects of fiscal or budgetary policy and in the impact that fiscal operations have on the liquidity of the private sector has caused an increasing number of students to reject the national accounts budget in favour of a more comprehensive

concept of budget. A cash budget showing all cash payments to and receipts from the private sector, except debt transactions, has received most support and in one form or another has been offered as a third concept of budget, intended not to replace the national accounts and administrative budget but merely to supplement them.

The Liquidity Effect

Before examining the concept of a cash budget in detail, it may prove worthwhile to consider the nature of the liquidity effect associated with, or arising out of, budgetary operations and to attempt to come to some conclusion regarding its size and importance within the context of the government's over-all stabilization programme. If the effect is proved to be large and economically significant from the point of view of its restrictive or expansionary impact, it cannot be ignored, especially if there should be a tendency for liquidity and income effects to operate in opposite directions. Furthermore, a strong liquidity effect resulting from budgetary changes would provide a close link between countercyclical fiscal policy and credit-debt management policies, and as such could be expected to figure significantly in the effective integration of these policies. For example, the proper integration of monetary and fiscal policy requires a clear understanding not only of the magnitude and timing of monetary and fiscal instruments themselves, but also of the interconnection or overlap existing between the two approaches to economic stabilization.

The liquidity effect that is identified with changes in budgetary policy is of two origins. First, there is the effect on liquidity arising from the fact that included within the budget or within the competence of the fiscal authorities are certain financial transactions of

a capital nature (e.g., loans and loan repayments) that alter the asset and liability position of the private sector. Secondly, there is a liquidity effect that owes its existence to the difference between accrual and cash transactions between the government and private sectors. The latter type of liquidity effect requires a note of explanation. It arises out of the fact that business enterprises, which comprise a substantial part of the private sector, use accrual accounting. They generally view income tax liabilities as a claim against income and hence as a balance-sheet liability, even though cash payment of taxes may not take place until several months later. Similarly, income derived from government-let contracts or orders is considered to be earned at the time goods or services are delivered and not when payment is made for them. 3/ Accrued income will appear on the business's balance sheet as an asset (accounts receivable) and, like a tax accrual, will affect the business's liquidity position.

A clearer understanding of the liquidity effect arising out of the difference between accrual and cash accounting is possible once it is realized that an excess of corporate income tax accruals over payments is equivalent to an interest-free government loan. The lag of corporate tax payments behind accruals during a period of rising corporate income provides businesses with an additional source of working capital or, in the case of enterprises that purchase short-term liquid assets to offset tax liabilities, results in their becoming suppliers of short-term credit. The effect on economic activity is expansionary and hence perverse in either case, provided monetary and fiscal authorities do not act to counteract the increase in liquidity occasioned by the tax lag. 4/ The lag of corporate tax payments behind accruals has a perverse effect on

economic activity during periods of declining corporate income when government policy is normally directed at expanding demand. The failure of corporate tax payments to decline as quickly as tax accruals reduces the volume of internally generated funds available to business, with the result that corporate spending is reduced and/or businesses have fewer funds to invest in liquid assets or to use in the reduction of short-term indebtedness. 5/

A restrictive liquidity effect is also felt whenever the production of goods and services under government contract or purchase order exceeds in value progress payments or final payments made by the government. Accounts receivable representing deliveries to the government for which payment has not been made, as well as inventories of goods in process for which, or toward the financing of which, the government has not made progress payments, have to be financed by private credit. In the absence of offsetting action by the government, interest rates will be higher than they would otherwise be and investment spending, generally, will be lower.

The liquidity effect of the budget or of the government's budgetary operations can be measured by subtracting the government's cash deficit (or surplus) as obtained from a cash budget from the deficit (or surplus) of the national accounts budget. 6/ The difference between these two budget concepts is accounted for entirely by the difference between accrual and cash accounting and the inclusion in a cash budget of many financial transactions affecting the liquidity of the private sector that are excluded from a national accounts budget. The two budgets would be identical or, more accurately, their balances (surpluses or deficits) would be the same if differences in timing and coverage did not exist.

As it is, a larger cash than national accounts deficit signifies that transactions included in the former but not in the latter budget, together with the timing adjustments needed to place the two budgets on an equal basis, have a negative balance, i.e., disbursements exceed receipts. The liquidity effect in this situation is positive, thereby having an expansionary impact on the level of economic activity. A positive liquidity effect is also produced whenever the government's surplus, measured by its cash budget, is smaller than its surplus on a national accounts basis, or whenever the national accounts budget has a surplus and the cash budget a deficit, regardless of the size of the surplus and deficit. A negative liquidity effect occurs whenever (1) the cash-budget deficit is smaller than the budget deficit measured on a national accounts basis or (2) the cash surplus is larger than the surplus of the national accounts budget.

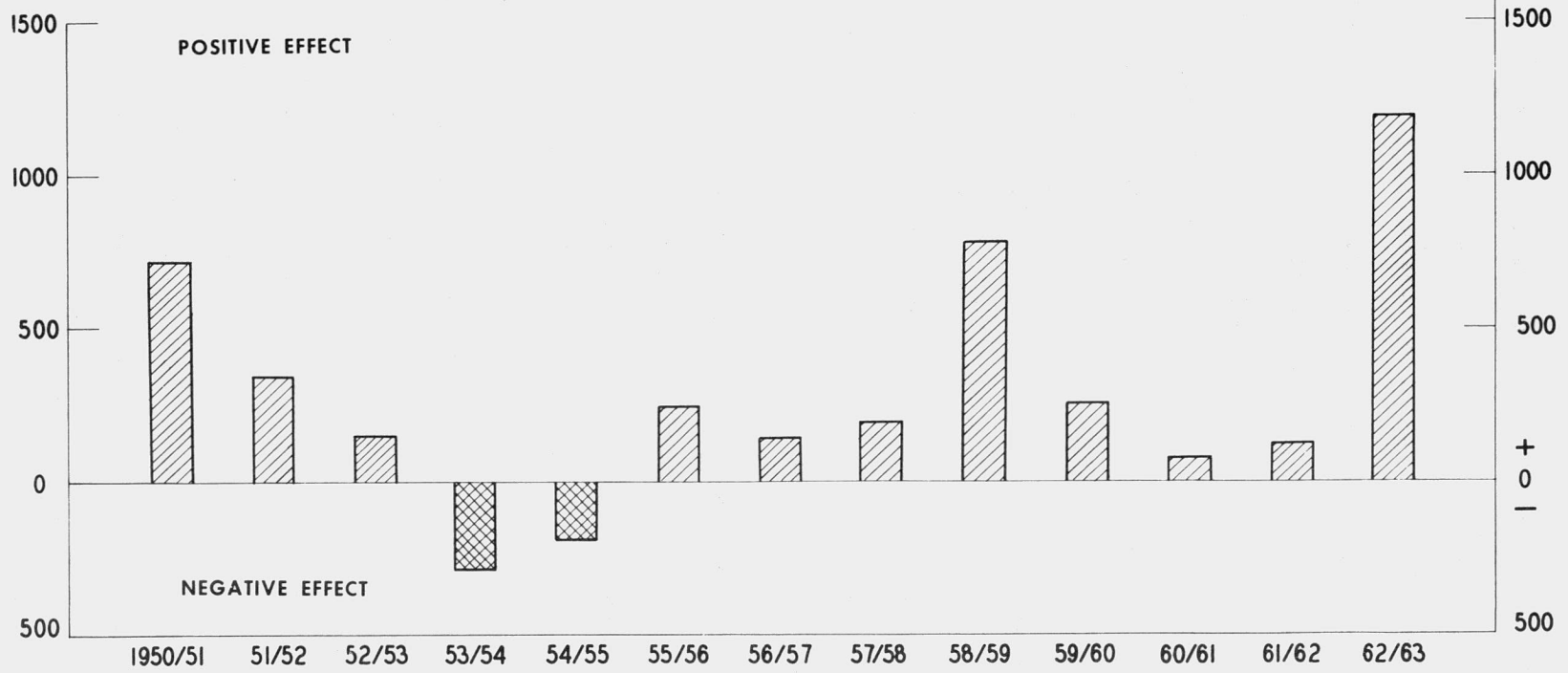
Chart 2-4 represents an attempt to measure the liquidity effect of Canadian budgetary operations between fiscal years 1950-51 and 1962-63. In the absence of a cash budget for Canada, and therefore of a satisfactory measure of the government's cash requirements or surplus, a certain amount of improvisation was necessary. This took the form of adjusting the public accounts' "over-all cash requirement or surplus" to include changes in government debt held by the Unemployment Insurance Fund, an adjustment that goes part way in meeting the objections to the public accounts' measure of cash deficit or surplus. 7/ The improvised figure for cash requirement or surplus, while not accurate as to actual amount, does provide a fairly reliable indication of the direction and relative magnitude of year-to-year changes. The government's cash deficit or surplus thus defined was subtracted from the national accounts budget

Chart 2-4

DEFENCE BETWEEN NATIONAL ACCOUNTS BUDGET SURPLUS OR DEFICIT AND CASH SURPLUS OR DEFICIT AS MEASURE OF LIQUIDITY EFFECT

Fiscal Years 1950-51 to 1962-63

Millions of Dollars



deficit or surplus to obtain the bars that appear in Chart 2-4. Bars above the zero line suggest a positive liquidity effect, indicating that the budget is more expansionary than would be the case if income effects alone were influencing the level of economic activity or national income. Bars below the zero line, signifying a negative difference between the national accounts budget balance and the government's cash requirement or surplus, indicate a negative liquidity effect.

With the exception of two years, fiscal years 1953-54 and 1954-55, the government's budgetary operations have produced a positive liquidity effect ranging in amount from $43 million in 1961-62 to $1,185 million in 1962-63. However, in noting the contribution that the liquidity effect of the budget makes to economic stability, less attention should be placed on its absolute size than on the direction and magnitude of year-to-year changes.

Appropriate countercyclical policy calls for a less expansionary or more restrictive liquidity effect during periods of cyclical upswing, and for an expansionary liquidity effect during recessions or periods of declining economic activity. Chart 2-4, based as it is on annual data, is inadequate for showing the behaviour of the budget's liquidity effect over the cycle, but some general observations can nevertheless be made. Fiscal year 1953-54 was, with the exception of its two initial months, a year of recession, yet the liquidity effect of the government's budgetary operations during that year was restrictive, both in the absolute sense of having a negative value and in relation to its size in fiscal 1952-53. Such a perverse liquidity effect would exert an upward pressure on interest rates, causing interest rates to rise in the absence of changes in monetary and debt-management policies or making a reduction in

rates more difficult in the event that the latter policies were directed to that end. 8/ Over-all budgetary performance in fiscal year 1957-58, also a year of cyclical downswing, was much better insofar as the liquidity effect was expansionary, operating in the same direction as the income effect. The inordinately large change in the liquidity effect during this recessionary period can be accounted for almost entirely by increased loans to crown corporations and agencies, especially to CMHC, CNR and the St. Lawrence Seaway Authority.

Chart 2-5 illustrates that part of the liquidity effect that can be attributed to the difference between accrual and cash accounting of corporate income taxes. As noted above, this liquidity effect operates in a perverse direction contributing to a reduction in the liquidity of the private sector during cyclical downswings and expanding liquidity during periods when corporate income is rising. Chart 2-5, especially the experience of fiscal years 1953-54 and 1957-58, both recession years, would seem to confirm this cyclical behaviour.

The Government's "Cash Position"

The nearest approximation to a cash budget published by the Canadian government is the public accounts' statement of the government's cash position. In no sense, however, does this statement serve the functions of a cash budget. It does not show the gross flows of cash between the government sector, meaningfully defined, and the private sector of the economy, nor does it provide a conceptually satisfactory measure of the government's cash requirements or surplus. As Table 2-3 indicates, the government's cash position consists of a statement of all budgetary transactions of the government, exclusive of transactions in unmatured

Chart 2-5

EXCESS OF CORPORATE INCOME TAX ACCRUALS OVER COLLECTIONS

Fiscal Years 1950/51 to 1962/63

Millions of Dollars

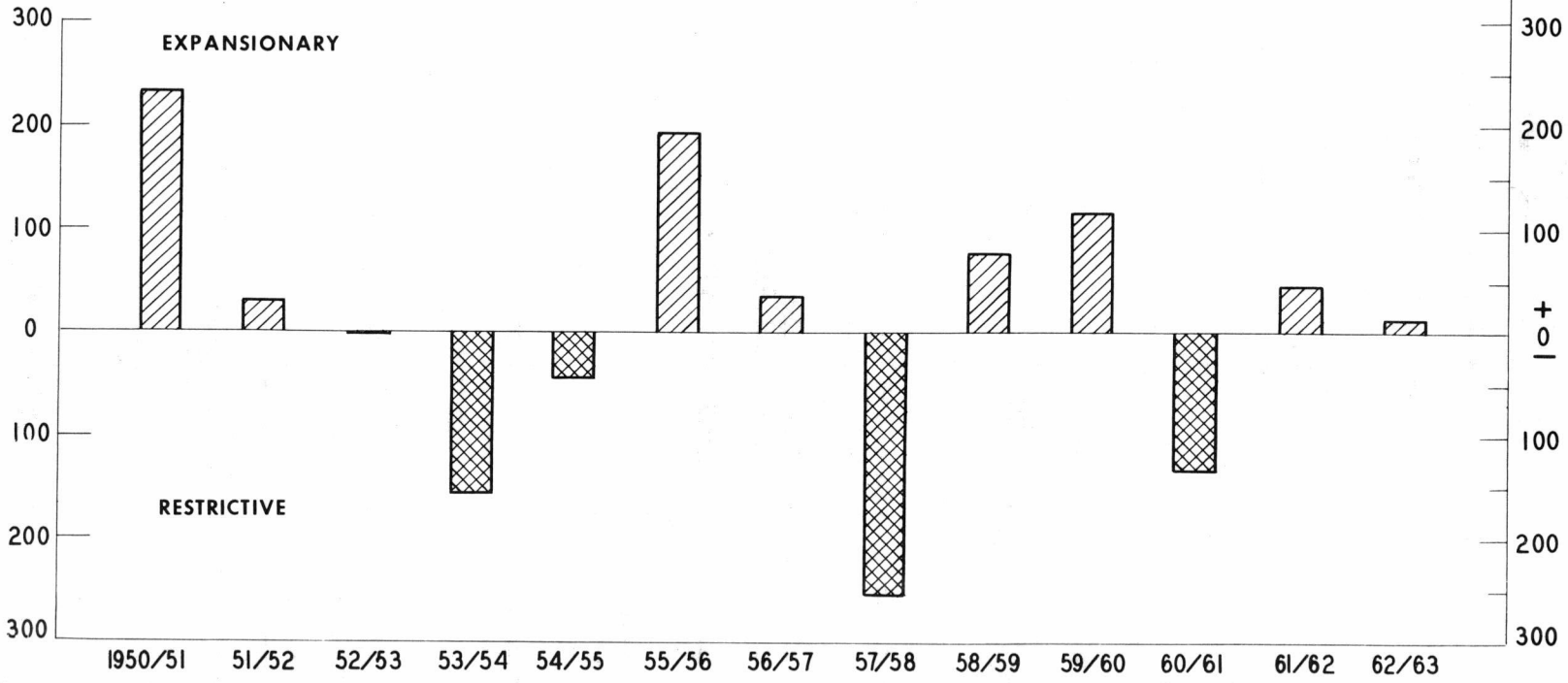


Table 2-3

The Government's Cash Position

For Fiscal Year Ended March 31, 1962

(in millions of dollars)

Budgetary transactions		
Revenues	5,729.6	
Expenditures	- 6,520.6	
Budgetary deficit (-)		- 791.0
Non-budgetary transactions (excluding unmatured debt transactions) (net)		
Receipts and credits	877.5	
Disbursements	- 564.1	
Net amount received from non-budgetary transactions		313.4
Over-all cash requirement (-) to be financed by increase in debt or decrease in cash balances		- 477.6
Net increase in unmatured debt outstanding in the hands of the public		
Unmatured debt		
Bonds	927.8	
Treasury bills	- 50.0	
Securities Investment Account	19.1	
Sinking fund and other investments	- 2.4	
		894.5
Net increase or decrease (-) in Receiver General bank balances		416.9

Source: Public Accounts of Canada, for the fiscal year ended March 31, 1962, Vol. 1, p. 87.

debt, with the balance between total "receipts" and "disbursements" appearing as a cash requirement or surplus. The government's cash position also shows the means by which a cash deficit is financed or a cash surplus is disposed of—through either a change in the amount of unmatured debt outstanding in the hands of the public or a change in cash balances, or both.

The non-budgetary transactions of the public accounts involve changes in the government's balance sheet and as such are related to the public account's concept of "net debt". Non-budgetary disbursements and charges consist largely in net increases in loans and advances to crown corporations and other government agencies and funds (including the Old Age Security Fund), net disbursements from the Unemployment Insurance Fund and sundry liability accounts, and net increases in sundry asset accounts. Receipts and credits of a non-budgetary nature relate to loan repayments, net receipts of government annuity, insurance and pension accounts, increases in current and demand liabilities (e.g., outstanding treasury cheques, interest due and outstanding) and to net increases in various other liability accounts including the trust and deposit funds, operating funds and special accounts such as the Colombo Plan Fund.

Three major criticisms can be made of the public account's statement of the government's cash position. First, like the administrative budget whose transactions it summarizes along with the non-budgetary transactions, the government's cash position includes many purely bookkeeping entries that do not represent cash flows between the government and private sectors. These non-cash transactions include intragovernmental transfers of funds and net changes in the various asset and

liability accounts. Secondly, non-budgetary transactions are reported on a net rather than on a gross basis. Even if it were possible to separate all cash from non-cash transactions appearing in the public accounts' statement of the government's cash position, it would still not be possible to estimate total payments to and receipts from the public. Gross data on cash flows are needed at the level of individual groups or categories of payments and receipts as well as for totals. Economically meaningful data on loans and advances to crown corporations and to other parts of the private sector, for example, should show the amount of both new loans and loan repayments, since the expansionary effect of new lending by the government is not likely to be cancelled out or offset by an equivalent amount of loan repayments. Similarly, cash payments into and out of the various annuity, pension and insurance accounts should be recorded on a gross basis in a properly constructed cash budget.

The third criticism of the government's cash position as summarized in Table 2-3 relates to its treatment of the Unemployment Insurance Fund. Since fiscal year 1951-52, purchases of government securities by the Fund have been recorded as a non-budgetary disbursement (cash payment) and the disposition of securities either through their sale on the open market or, since 1961, by the return of non-marketable bonds to the government, has appeared as a non-budgetary receipt. An excess of benefits paid out over contributions, which one is inclined to regard as a cash requirement of the government, especially under the new arrangements for financing such a deficit in the Fund's current operations, appears in the public accounts as a non-budgetary disbursement, but is largely, if not wholly, offset by a non-budgetary receipt representing

the proceeds from the sale of securities held by the Fund. The government's over-all cash position, therefore, is not affected or is affected only significantly, by the Fund's operations, which in the case cited would show a deficit. Put simply, the Unemployment Insurance Fund is treated as lying outside the government sector and beyond the reach of policy decision. This view of the Fund, held by the government in 1952, 9/ is difficult to appreciate, particularly in view of the recent (1958) disposition of the government to treat the Fund as an arm of its debt management policy. 10/

The fact is that the operations of the Unemployment Insurance Fund do affect the government's cash requirements in a significant way. Today, any excess of benefit payments over contributions means that the Fund must redeem non-marketable bonds at the Treasury which, in order to raise the required amount of cash, will likely have to increase the amount of unmatured debt outstanding in the hands of the public. A surplus from the Fund's operations—an excess of contributions over payments—on the other hand, is used to purchase non-marketable government securities, thereby reducing the amount of funds that has to be raised through debt issue, or increasing the supply of funds available for debt reduction. Even under the previous arrangement whereby the Unemployment Insurance Fund dealt in the open market in marketable securities, a convincing argument could be made for treating the Fund in a similar way to the Securities Investment Account and the sinking fund, that is, in such a way that an increase in securities held by the Fund would be regarded as a reduction in debt outstanding in the hands of the public. The argument for doing so is based on the assumption that the Fund lies within the government sector and that for debt purposes it constitutes a government account.

Construction of a Cash Budget

A cash budget is intended to present a picture of the two-way flow of cash between the government and the public, excluding cash flows connected with or arising out of transactions in the public debt. The budget's balance—the government's cash surplus or deficit—is closely linked to the size of the government's operations as either a net supplier or net borrower of funds. It is this balance, as already noted, that provides an important link between the government's budgetary operations and developments in the money market. A larger cash deficit, reflecting an expansionary budgetary policy, is almost certain to result in higher interest rates unless monetary authorities pursue a policy of accommodation, permitting the money supply to expand so as to offset the effect on interest rates of an increase in the government's demand for funds. The prospect of a large cash requirement may well act as a restraining factor in determining the level of government expenditure or in considering the advisability of a tax cut as an anti-recessionary measure. This is most likely to be the case if the government feels, as the Canadian government appears to have felt in the period 1958-61, that interest rates are determined by the free play of market forces and that there is little, if anything, that it can do about them except in its role as a net borrower or supplier of funds.

The problem of defining the government sector is particularly acute in respect of a cash budget, since a comprehensive statement of the cash operations of the government is bound to report some activities that have limited or no significance in terms of their economic impact. For example, should the numerous trust and deposit accounts, government pension and annuity accounts and the operating funds be included? They lie outside the pale of government policy, yet any cash deficiency or

surplus resulting from their operation affects the total amount of cash that has to be raised by the government or is available for debt retirement. These accounts and funds are integrated into the federal financial structure regardless of their significance from the point of view of economic policy and its objectives.

There is perhaps more reason in the case of the cash budget than any other form of budget to determine coverage by some criterion other than the economic impact of a transaction or group of transactions. A cash budget, if it is to reflect the government's true cash position, must cover all transactions affecting the government's cash balances.

This is essentially the approach followed below in constructing a cash budget for the federal government. The definition of the government sector is consistent with that used in the public accounts except on one point, i.e., any agency, body, account, fund, etc., that utilizes the cash balances of the Receiver General in its day-to-day operations is deemed to be part of the government sector. The exception to this rule relates to the Unemployment Insurance Fund. Contrary to the procedure followed in the public accounts, payments into and out of the Fund are shown as cash receipts and disbursements, respectively, with the result that the government's cash deficit or surplus is affected by the Fund's operations. This is in line with remarks made earlier about the treatment of the Unemployment Insurance Fund within the existing system of accounts.

A cash budget can be constructed by either of two methods. The first method, which is similar to that employed in the construction of the United States "Consolidated Cash Budget", consists of eliminating

from the public accounts' statement of budgetary and non-budgetary transactions (1) all intragovernmental transactions, i.e., government expenditures or disbursements that also appear as receipts, such as the government's contribution to government pension, insurance and superannuation accounts and the appropriation of funds to special funds and accounts and (2) non-cash transactions such as interest accrued on the public debt, amortization of bond discounts and commissions, demand notes issued to the International Monetary Fund, etc. Before this elimination can take place, however, all non-budgetary transactions of the government, which appear in the public accounts on a net basis, have to be "grossed up" or put on a gross basis. This grossing operation is a major undertaking in itself and necessitates referral to Treasury ledgers and fiscal account cards. Cash transactions of the Unemployment Insurance Fund, excluding transactions in securities and intragovernmental transactions, have then to be added to cash receipts and disbursements obtained from the public accounts and their source data. Adjustments also have to be made for the supplementary period in order to put the first and last months of the fiscal year (April and March) on a strictly cash basis.

The second method consists of going directly to Treasury records and building up cash receipts and payments from evidence of cash flows (e.g., cheques cashed and issued), or of applying to each budgetary and non-budgetary transaction or group of transactions the following test: does the transaction being considered involve a flow of cash between the government and private sectors during the period covered by the budget? The same procedure would be followed with respect to the Unemployment Insurance Fund. If cash payments are calculated on a cheques-

issued basis, no adjustment for the supplementary period is necessary since payments or disbursements are always recorded in the month cash is paid out. A cheques-issued approach, however, over- or under-estimates actual cash payments to the extent that the volume of cheques outstanding changes from one accounting period to another. This problem of float is avoided by reducing cash payments by the amount of any increase in cheques outstanding and by increasing them if the value of outstanding cheques declines. A similar situation arises on the receipts side of a cash budget where receipts tend to be under-estimated by an increase in cash in transit and in the hands of collectors and over-estimated if cash in transit declines.

The second method has been followed as closely as possible in constructing the cash budget of the federal government which appears in Table 2-4. That is, data on cash receipts and cash payments have been built up directly from Treasury records rather than derived indirectly from public accounts' totals by eliminating all intragovernmental and non-cash transactions. The distinction between budgetary and non-budgetary transactions has been retained in order to facilitate comparison with the public accounts' statement of budgetary and non-budgetary transactions and of the government's cash position. Total cash receipts of the federal government, including cash receipts of the Unemployment Insurance Fund, totalled $7,417.8 million in fiscal year 1961-62 and $8,439.5 million in 1962-63, while total cash payments of the government to the public amounted to $8,195.4 and $10,007.7 million, respectively. The excess of payments over receipts, or the cash deficit, was $777.6 million in 1961-62 and $1,568.2 million in 1962-63.

A satisfactory breakdown of cash payments by function is difficult to achieve because payments include, in addition to outlays on goods and services and transfer payments, loans and investments as well as the disbursements of the various liability accounts and funds. Unless loans and investments can be categorized as to function and the liability accounts can be regarded as being related to a particular function of government, any functional classification is bound to contain a large "unallocable" or "unclassified" category. In Table 2-5 the distinction between budgetary and non-budgetary transactions has been dropped and the functional classification has been broadened and, to the extent possible, made to conform to the functional breakdown suggested in Chapter 1. Old age security payments and unemployment insurance benefits have been placed in the category "national health and welfare and social security" and the cash disbursements of the so-called special accounts, the Colombo Plan Fund, the National Capital Fund, etc., have been assigned to appropriate categories. Two new categories—"loans, investments and advances" and "unallocable"—have been added to cover all remaining payments of a non-budgetary nature. On the receipts side of the budget, all non-budgetary receipts except old age security taxes have been included under the heading "other non-tax revenue".

The cash budget shown in Table 2-5 could be made more useful for analytical purposes if certain departures from the strict cash-received and cash-paid-out basis were permitted. For example, tax collections in fiscal 1961-62 are gross of the provinces' share under the Federal-Provincial Fiscal Arrangements Act and gross of collections on behalf of the provinces in fiscal 1962-63. Tax collections transferred to the provinces under the tax-sharing agreement and the new arrangements

TABLE 2-4

Cash Budget Of The Federal Government

(Fiscal years 1961-62 and 1962-63. In millions of dollars)

DESCRIPTION	1961-62		1962-63	
RECEIPTS FROM THE PUBLIC				
BUDGETARY RECEIPTS				
Personal income tax				
Withheld	1,391.9		1,574.9	
Other	577.8		584.1	
Gross personal income tax	1,969.7		2,159.0	
Less refunds	247.4		240.2	
Net		1,722.3		1,918.8
Corporation income tax	1,265.7		1,310.6	
Less refunds	58.3		59.2	
		1,207.4		1,251.4
Sales tax	796.5		788.9	
Less refunds	35.0		38.2	
Net		761.5		750.7
Customs import duties	570.3		685.6	
Less refunds	35.8		40.7	
Net		534.5		644.9
Other excise taxes and duties	642.4		707.8	
Less refunds	15.4		5.0	
Net		627.0		702.8
Estate and non-resident tax	200.8		221.0	
Less refunds	4.1		5.5	
Net		196.7		215.5
Non-tax revenues		505.3		508.4
TOTAL BUDGETARY RECEIPTS		5,554.7		5,992.5
NON-BUDGETARY RECEIPTS				
Repayments of loans and advances				
CNR	17.7		2.8	
Exchange Fund	628.0		1,048.0	
Other	73.8		155.2	
Annuity, insurance and pension funds				
Old Age Security Fund	644.0		691.1	
Unemployment Insurance Fund	277.6		286.3	
All other	6.0		6.0	
Other accounts and funds	224.3		241.3	
TOTAL NON-BUDGETARY RECEIPTS		1,871.4		2,430.7
Increase or decrease (-) in cash in hands of collectors		- 8.3		16.3
TOTAL RECEIPTS FROM THE PUBLIC		7,417.8		8,439.5

DESCRIPTION	1961-62		1962-63	
PAYMENTS TO THE PUBLIC				
BUDGETARY PAYMENTS				
Defence	1,472.3		1,402.8	
Veterans affairs	328.9		328.3	
National health, welfare and social security	1,139.8		1,236.0	
Public debt charges	633.4		710.1	
Payments to provinces and municipalities	566.4		678.9	
Transportation and communication	673.5		680.1	
Resources and industrial development	300.1		310.7	
Agriculture	207.2		149.0	
Education	45.6		235.0	
International co-operation	46.5		42.4	
General government and unclassified	319.2		324.5	
TOTAL BUDGETARY PAYMENTS		5,732.9		6,097.8
NON-BUDGETARY PAYMENTS				
Loans and advances				
CNR	161.8		321.9	
CMHC	110.1		64.3	
Exchange fund	397.0		1,667.0	
Other	185.5		179.0	
Annuity, insurance and pension funds				
Old Age Security Fund	625.1		734.5	
Unemployment Insurance Fund	455.2		403.1	
All other	105.0		112.5	
Other accounts and funds	458.0		461.5	
TOTAL NON-BUDGETARY PAYMENTS		2,497.7		3,943.8
Deduct: Miscellaneous non-cash items		-21.3		-33.1
Increase in outstanding treasury cheques		-13.9		- .8
TOTAL PAYMENTS TO PUBLIC		8,195.4		10,007.7
EXCESS OF RECEIPTS FROM OR PAYMENTS TO (-) THE PUBLIC		-777.6		-1,568.2

TABLE 2-5

Cash Budget Of The Federal Government

(Fiscal years 1961-62 and 1962-63. In millions of dollars)

DESCRIPTION	1961-62		1962-63	
RECEIPTS FROM THE PUBLIC				
Personal income tax				
Withheld	1,391.9		1,574.9	
Other	577.8		584.1	
Gross personal income tax	1,969.7		2,159.0	
Less refunds	247.4		240.2	
Net		1,722.3		1,918.8
Corporation income tax	1,265.7		1,310.6	
Less refunds	58.3		59.2	
		1,207.4		1,251.4
Estate and other direct taxes	200.8		221.0	
Less refunds	4.1		5.5	
Net		196.7		215.5
Sales tax	796.5		788.9	
Less refunds	35.0		38.2	
Net		761.5		750.7
Customs import duties	570.3		685.6	
Less refunds	35.8		40.7	
Net		534.5		644.9
Other excise taxes and duties	642.4		707.8	
Less refunds	15.4		5.0	
Net		627.0		702.8
Old Age Security Tax 1/		644.0		691.1
Non-tax receipts				
Gross postal revenue		213.5		223.4
Return on investments		218.2		201.4
Repayment of loans and advances (excl. exchange fund)		91.5		158.0
Repayment of advances to exchange fund		628.0		1,048.0
Contributions to Unemployment Insurance Fund		277.6		286.3
All other		303.9		330.9
Increase or decrease (-) in cash in hands of collectors		- 8.3		16.3
TOTAL RECEIPTS FROM THE PUBLIC		7,417.8		8,439.5

DESCRIPTION	1961-62		1962-63	
PAYMENTS TO THE PUBLIC				
Defence		1,472.3		1,402.8
Veterans affairs		328.9		328.3
National health, welfare and social security				
Old Age Security payments	625.1		734.5	
Unemployment insurance benefits	455.2		403.1	
All other	1,139.8		1,236.0	
Total		2,220.1		2,373.6
Payments to provinces and municipalities		566.4		678.9
Transportation and communication		683.7		692.9
Resources and industrial development		300.1		310.7
Agriculture		207.2		149.0
Education		45.6		235.0
International co-operation		83.7		74.8
General Government				
Public debt charges	633.4		710.1	
All other	323.5		329.6	
Total		956.9		1,039.7
Loans, investment and advances				
Loans to CMHC 2/	110.1		64.3	
Advances to CNR	161.8		321.9	
Advances to exchange fund	397.0		1,667.0	
All other	185.5		179.0	
Total		854.4		2,232.2
Unallocable 3/		511.3		523.7
Deduct: Miscellaneous non-cash items		-21.3		-33.1
Increase in outstanding treasury cheques		-13.9		- .8
TOTAL PAYMENTS TO THE PUBLIC		8,195.4		10,007.7
EXCESS OF RECEIPTS FROM OR PAYMENTS TO (-) THE PUBLIC		- 777.6		-1,568.2

1/ Refunds included under personal, corporate and sales tax refunds.
2/ "Cash" loans to CMHC consist of total loans minus loan repayments and interest payments.
3/ Consists mostly of cash disbursements of deposit and trust accounts, working capital and revolving funds, and annuity insurance and pension accounts other than Old Age Security Fund and Unemployment Insurance Fund.

introduced in fiscal 1962-63 appear on the payments side of the budget along with conditional and other grants to the provinces. For fiscal year 1962-63, in particular, a strong case can be made for excluding from a statement of cash receipts and payments, taxes collected on behalf of, or under agreement with, the provinces. Also, strict adherence to the cash-received and cash-paid-out criterion used in constructing Tables 2-4 and 2-5 eliminates certain transactions which, although important from the point of view of their impact on the economy, do not entail either a cash receipt or cash payment. To take an example, loan repayments and the payment of interest by the Central Mortgage and Housing Corporation are applied against quarterly advances to the Corporation with the result that neither appear in the budget. Loans to CMHC as shown in Tables 2-4 and 2-5 are net of repayments and interest payments. An alternative procedure would be to show gross loans on the payments side of the budget and loan repayments and interest (return on investments) separately on the receipts side.

One check on the accuracy of the cash budget shown in Tables 2-4 and 2-5 consists of comparing the excess of payments over receipts with the government's cash requirement obtained by the "back-door" method, i.e., from changes in unmatured debt outstanding and cash balances. The public accounts' figure for unmatured debt outstanding in the hands of the public has to be adjusted to include government debt held by the Unemployment Insurance Fund. An adjustment must also be made for the supplementary period, which affects both debt and cash balance figures as published in the public accounts. Table 2-6 shows the government's over-all cash requirement in fiscal years 1961-62 and 1962-63 derived by the "back-door" method and after all adjustments have been made. Data

Table 2-6

Federal Government's Over-all Cash Requirements Derived From Changes In Unmatured Debt Outstanding And Cash Balances.

(Fiscal years 1961-62 and 1962-63. In millions of dollars)

	1961-62	1962-63
Net increase in unmatured debt		
Unmatured debt		
Bonds 1/	1,046.4	787.1
Supplementary period	- 71.4	- 30.9
Treasury bills	- 50.0	280.0
Supplementary period	1.2	---
Securities Investment Account 2/	19.1	50.5
Supplementary period	3.6	- 3.6
Sinking fund and other investments	- 2.4	- 2.9
Supplementary period	68.0	1.7
Purchase fund (supplementary period)	7.8	1.1
Unemployment Insurance Fund (Marketable Securities)	6.6	---
	1,028.9	1,083.0
Net increase (-) or decrease in Receiver General bank balances	-416.9	400.2
Supplementary period	3.2	.4
Net increase (-) or decrease in Post Office Cash on Hand and in Transit	- 3.8	- .6
Supplementary period	5.2	1.6
Net increase (-) or decrease in cash in hands of collectors and in transit 3/	8.3	- 16.3
Over-all cash requirement	624.9	1,468.3

1/ Excludes Government of Canada securities held by the Unemployment Insurance Fund.
2/ Excludes non-government securities.
3/ Not adjusted for supplementary period.

Source: Public Accounts of Canada. Data for supplementary period supplied by the Research Department, Bank of Canada.

for the supplementary period were obtained by comparing March 31 preliminary figures with final year-end figures. The cash requirement arrived at in this way compares with that obtained directly from the cash budget as follows:

	1961-62	1962-63
	(Millions of dollars)	
Excess of payments to or payments from (-) the public (Table 2-5)	$ 777.6	$ 1568.2
Over-all cash requirement (Table 2-6)	624.9	1468.3
Discrepancy	152.7	99.9

The results are not too encouraging and suggest that further work is required to reduce the margin of error in building up the total cash receipts and payments from source data. Since it is the concept of a cash budget and not the size of cash receipts and payments that is of interest here, only a moderate amount of time has been spent in trying to reduce the discrepancies shown in the above table.

REFERENCES

1/ Canada, Budget Speech, May 18, 1948, p. 11.

2/ See, for example, Richard Goode, "Budget Concepts and Accounting", Review of Economics and Statistics, XLV, No. 2 (May 1963), p. 132.

3/ Michael E. Levy, Fiscal Policy, Cycles and Growth, The National Industrial Conference Board, Studies in Business Economics, No. 81, New York, 1963, p. 116.

4/ It is possible to argue that all liquidity effects arising out of the difference between accrual and cash accounting can be "netted out" and reduced to mere accounting effects having no particular economic significance. For example, during a cyclical upswing when tax collections are less than tax liabilities, government borrowing is likely to be greater than would be the case with no tax lag. To the extent that any increased borrowing by the government is financed by the sale of securities to the public, rather than through an expansion of the money supply, it can be argued that the existence of a tax lag transfers cash balances from capital markets generally to corporations. The net effect of such a transfer would be expansionary only if expenditures by corporations were increased by more than the reduction in expenditures by purchasers of government securities. It is even possible that the liquidity effect occasioned by a tax lag may have a restrictive impact on the economy during a period of rising incomes. A similar argument can be advanced for ignoring or attaching little significance to the liquidity effect of the budget at a time when incomes are falling and tax collections are in excess of tax liabilities. In this case, government borrowing is likely to be less than it otherwise would be, with the effect of transferring funds from corporations to capital markets in general. For a full statement of these views, see Wilfred Lewis, Jr., Federal Fiscal Policy in the Postwar Recessions, New York: The Brookings Institution, 1962, pp. 80-83, and for a comment on them see Levy, op. cit., 117n.

Even if it were granted that the liquidity effects arising out of differences between accrual and cash accounting can be and indeed are largely offset by corresponding changes in government borrowing and monetary policy, a good case can be made from an analytical point of view for treating these effects separately.

5/ The fact that corporations tend to be fairly liquid at the trough of the recession, relative to their need for investment funds, suggests that their expenditures are not likely to be affected significantly by a reduction in the volume of funds available internally.

6/ See Levy, op. cit., pp. 117-119.

7/ The over-all cash requirement was adjusted so that an excess of unemployment benefits over contributions would appear in the public accounts as a cash requirement and an excess of contributions over benefits paid out as a cash surplus. For a discussion of the relation of the Unemployment Insurance Fund to the government's cash position, see pp. 65-66.

8/ Long-term interest rates rose until October 1953, four months after the downturn in economic activity, then declined throughout the remainder of the recession.

9/ The government claimed that all moneys in the Fund were held in trust for contributors and therefore should be excluded from any calculation of the government's cash position (Public Accounts of Canada, for fiscal year ended March 31, 1952, Vol. I, p. 47).

10/ In late 1958, as part of the Conversion Loan operation, the Unemployment Insurance Fund converted approximately $300 million in Victory loan bonds, all of short-term maturity, into securities of much longer term. The charge has been made that the government coerced the managers of the Fund into this exchange of short-term for long-term securities as a means of insuring the success of the Conversion Loan. Since the Fund was in need of large sums of cash in 1959 to meet a net drain on its resources, it was forced to sell longer term securities than would have otherwise been the case, with the result that a substantial loss was incurred. See Douglas H. Fullerton, The Bond Market in Canada, Toronto: The Carswell Company Limited, 1962, pp. 253-255; also H. Scott Gordon, The Economists versus the Bank of Canada, Toronto: Ryerson Press, 1961, pp. 20, 24-27.

CHAPTER 3—CAPITAL BUDGETING

Capital budgeting will be assessed here primarily in terms of its implications for stabilization policy. A minimum of attention will be paid to the various arguments that have been put forth in favour of a capital budget, except to say that most of these arguments are based on an essentially false analogy between government and private enterprise. The discussion will reflect the concern of those who regard the budget as a vehicle through which an important part of the government's economic policy is implemented rather than of those whose main objective is efficiency and good management in government.

It should be pointed out at the beginning that while the objective of the business world and the system of accounting it employs are to increase the net worth and distributable earnings of an enterprise, the objectives of modern government are much broader and considerably more complex. The government cannot gauge its success by reference to a balance sheet or income statement, nor is it able to pursue its objectives by the same means as private enterprise. Whereas current and capital expenditure constitutes a means in the business world, and for this reason should be kept at a minimum consistent with the maximization of profits and net worth, many forms of government expenditure can be regarded as an end in themselves, analogous to the consumption expenditure of the household.

To the extent that this is the case, there is no *a priori* reason why expenditure of a capital nature that increases capacity to consume

at some future date should have priority over expenditure on current consumption. 1/ Yet one of the results of government capital budgeting is to carry over into the government sector the marked preference of the business world for expenditures that result in the acquisition of durable, productive assets over those that do not. There is a tendency for capital budgeting to have built into it an attitudinal bias in favour of capital expenditure, in contrast to current expenditure, that is unrelated to, if not inconsistent with, the main objectives of government policy.

Experience with capital budgets in a number of countries 2/ suggests that the capital budget becomes closely associated in the minds of policy makers and the public with the government's borrowing operations. Borrowing tends to be regarded as the normal means of financing capital expenditure, while taxation is looked upon as providing revenue to cover current expenditure. This identification of the capital budget with government borrowing is so close in South Africa that the capital budget in that country is called the "loan account". 3/ In Sweden there is a similar association of the capital budget with the country's borrowing needs. The Swedish capital budget does not show total capital formation in any given fiscal year, but only that portion of capital expenditure that is financed out of net borrowing. 4/

The tendency for governments with capital budgets to regard borrowing as the normal method of financing capital expenditures may well result in more social capital formation than is consistent with an optimum division between public and private goods. Here, again, the Swedish experience is illuminating. The Swedes, who adopted a capital budget in 1935, soon recognized that public investment, if unchecked by the restraint

of higher taxes and/or large budgetary deficits, could easily become excessive. No automatic political check on capital spending existed as was the case with current-account spending or with capital outlays within the framework of a unified budget. As a means of remedying this situation, they modified their dual-budget system in 1937 to include a provision for writing off and financing out of taxes a proportion of each investment in the year in which it was made, the exact proportion of the write-off being determined by the profitability of the investment. 5/

Capital budgeting has a number of implications for stabilization policy. First, it should be noted that strict adherence to the notion that capital and current expenditures should be financed out of borrowing and taxation, respectively, can exert a destabilizing influence on the level of economic activity. When the problem is one of inflation and stabilization policy calls for a reduction in the government's contribution to aggregate demand, necessary capital outlays as well as current expenditures should be financed out of taxation. Financing of capital expenditures through borrowing under such a circumstance introduces an inflationary bias into budgetary policy, providing, of course, that it can be assumed that borrowing is less deflationary or contractionary than taxation. Similarly, during periods of insufficient aggregate demand, effective anti-recessionary fiscal policy is likely to require a larger deficit than is represented by current additions to social capital. Part of current expenditures, as well as capital outlays in this case, should be financed out of borrowing. This is not to say that an effective compensatory fiscal policy cannot be conducted within the framework of a capital budget, but it does point to the

necessity of choosing the method of financing government spending with a view to the state of the economy rather than the nature—current or capital—of the expenditure.

An argument in favour of a dual-budget system is that a capital budget, by excluding expenditures financed out of borrowing from calculation of the budget balance, can serve as a useful ritual in support of deficit financing. 6/ By minimizing the size of the budgetary deficit that the public associates with a given fiscal policy, a capital budget succeeds in removing or reducing in importance one of the major political limitations to the use of fiscal policy as a means of combatting recession. Be this as it may, it is hoped that greater public acceptance of compensatory fiscal policy can be based on something more substantial and deep-rooted than adherence to any particular form of budgetary presentation.

The view that capital budgeting is needed to render higher levels of government expenditure politically more palatable suggests a lack of confidence in the prospects of overcoming opposition to countercyclical budgeting through a process of education. But in the writer's opinion, it is only through education and the fostering of a better public understanding of the theory and practice of countercyclical budgeting that our fiscal authorities will be placed in a position to contribute to the stability of the economy.

Use of the capital budget as a means of achieving greater upward flexibility of government expenditures assumes that an increase in capital outlays is as effective a means of combatting recession and stimulating employment as an increase in current expenditure by the

government on goods and services or an increase in transfer payments to the private sector. It assumes, furthermore, that increases in government expenditures, say on public works, are a more effective anti-recessionary weapon than tax reductions. Neither assumption can be accepted on a priori grounds. For example, there is no reason to assume that the optimum division of government spending between current and capital uses is related to, or should be determined by, the level of government expenditure needed to support demand at any time. 7/ The immediate impact on the level of economic activity and employment of a given outlay on capital goods may be greater or less than if an equivalent amount were to be channelled into current expenditure. Capital projects that have a high import content and/or employ little labour per dollar of value qualify poorly as an economic stabilizer. So do capital projects that have long time lags associated with them, i.e., projects that cannot be got underway immediately or shortly after the need for government stimulus to the economy is recognized.

The claim is also made that a dual-budget system would provide information on social capital formation that is at present not available in either the public accounts or national accounts form of budgetary presentation. The need for data on public capital formation, especially where attention is focused on the government's role in promoting economic growth and resource development, cannot be denied, and for this reason every effort should be made to see to it that this information is available to those who can make use of it.

A capital budget, it should be pointed out, is not the only means of presenting data on capital formation in the government sector. The same information can just as easily be made available within the frame-

work of a unified budget. In fact, there is good reason for believing that a unified budget is to be preferred to a capital budget for purposes of reporting government capital expenditures. What is defined in a capital budget as a "capital expenditure" is unlikely to correspond exactly with what the economist considers a social capital formation or as the government's contribution to the country's stock of capital.

Capital budgeting as practised in European countries with dual-budget systems almost in every case involves the drawing of a somewhat arbitrary line between current and capital expenditures. If the budget's capital account is restricted to revenue-producing or "profitable" assets, it is clear that its size will be smaller than if it were to include all assets purchased by the government having a life expectancy or durability beyond the budget period. Yet a definition of capital expenditure that emphasizes the revenue-producing property of some assets and not of others is suggested by the analogy between government and private enterprise that is insisted upon by many champions of a dual-budget system. Reflection on the unique functions of government and of government spending is certain to lead to the conclusion that a much broader definition or concept of what constitutes a capital expenditure is called for. For example, government outlays on such an intangible as human capital, e.g., expenditure on education and public health, is just as much an element of social capital formation as government expenditure on a new office building, highway or harbour installation. The need to incorporate into a capital budget a broad category of expenditure items, many of which cannot be associated with revenue-producing assets, virtually precludes the possibility of constructing a government capital budget along "business" lines.

Countries that have capital budgets have shifted attention in recent years from the effect that budgetary policy has on a country's net worth or asset position—which is what capital budgeting is designed specifically to measure—to consideration of the budget's impact on employment, prices and growth. Interest in the budget as an instrument of stabilization policy has given new significance to the budget's total or over-all balance in these countries, with the result that for purposes of analyzing the economic impact of budgetary policy, the current and capital budgets are frequently merged or combined. Emphasis on the stability implications of the budget has also done much to dispel the belief, fostered by capital budgeting and inimical to the stabilization objective of budgetary policy, that capital expenditures should be financed only from borrowing and current expenditures only from taxation. Adaptation of the Swedish dual-budget system to the requirements of stabilization policy is described by the Swedish Minister of Finance as follows:

> Attention has concentrated more and more upon the budget's function as a balancing factor in the economy irrespective of what happened with regard to the net balance of the current budget over a longer series of years. Real economic factors, such as total employment, growth and price stability, have been given priority over more formal matters, such as the government's asset-liabilities relation.
>
> This means that the formal and book-keeping aspects have lost in importance.... Expenditure on the current budget includes a great deal of investment, so that even a ± 0 balance of this budget implies a considerable increase of real assets over liabilities. It is therefore only natural that for the purposes of economic analysis there has been a tendency to merge the current and capital budgets into what has been termed a 'total budget'. 8/

The Netherlands is another country with a dual-budget system that focuses attention on the "aggregate budget" for purposes of evaluating the government's impact on the private sector. The experience of countries that

have capital budgets, plus the judgment of students of public finance who are against capital budgeting, especially at the federal level, 9/ should be borne carefully in mind when considering the feasibility and desirability of a capital budget for the Canadian government.

REFERENCES

1/ See Richard Goode and Eugene A. Birnbaum, "Government Capital Budgets", Staff Papers, International Monetary Fund, Vol. V, No. 1, February 1956, p. 26.

2/ Countries that have capital budgets include Sweden, Denmark, the Netherlands, Ireland and South Africa.

3/ Goode and Birnbaum, "Government Capital Budgets", op. cit., p. 24.

4/ In the Swedish system of dual budgeting, capital expenditures financed by depreciation allowances, the liquidation of assets and surplus revenue from the current budget do not appear in either the current or capital budgets, but are included, along with capital expenditure financed out of net borrowings, in a supplementary statement called "The Budget of Capital Expenditure". See The Swedish Budget, 1963/64, a summary published by the Ministry of Finance, Stockholm, 1963, Appendix, pp. 64-78.

5/ Matti Leppo, "The Double-Budget System in the Scandinavian Countries", Public Finance, Vol. V. No. 2, 1950, p. 140.

6/ Jesse Burkhead, Government Budgeting, New York: John Wiley and Sons, 1956, p. 207.

7/ Ibid., pp. 207-208.

8/ The Swedish Budget, 1963/64, p. 78.

9/ See, for example, Carl S. Shoup, "Budgetary Accounting for Fiscal Policy", The Review of Economics and Statistics, XLV, No. 2 (May 1963), p. 139; R. A. Musgrave, "Should We Have a Capital Budget", Review of Economics and Statistics, XLV, No. 2 (May 1963), p. 136; Arthur Smithies, The Budgetary Process in the United States, New York: McGraw-Hill, 1955, p. 460; also Chamber of Commerce of the United States of America, "Report of the Committee for Improving the Federal Budget", 1962, p. 5.

CHAPTER 4—CONCLUSIONS

The conclusions will be presented in the form of suggestions or recommendations for improving the method of budgetary presentation in Canada. These suggestions or recommendations are not to be confused with whatever recommendations, if any, the Commissioners might make in respect to the budget as an economic document. They represent solely the views of the writer and are based primarily, although not entirely, on the material covered in Chapters 1 to 3. It has not been possible to include in the text of this study the research and consideration that underlie every one of these recommendations. In some cases, the recommendations reflect more opinion and judgment than the results of any specific piece of research. This is inevitable given the nature of the subject.

1. The government should publish, as soon after presentation of the budget to Parliament as possible, a separate budget document containing (a) a survey of economic developments in the fiscal year just ended or about to end, (b) a review of the government's economic policy in relation to these developments and to the economic outlook at the time the last annual budget was brought down, (c) a review of current economic trends and likely developments in the absence of any change in budgetary and/or other economic policies, (d) a statement of the budgetary changes proposed by the government, with their relation to the forecast of economic conditions in (c) being clearly spelled out, (e) a brief discussion of alternative policies open to the government and reasons for rejecting them in favour of the policy chosen, (f) the budgetary

accounts, showing figures for the fiscal year just ended or about to end and estimates for the ensuing fiscal year, (g) a section devoted to an analysis of government receipts and payments, providing among other things a breakdown of payments by function and economic classification for both the fiscal year just ended or about to end and for the new fiscal year, and (h) a statistical appendix.

The budget document, which should have an attractive format, should be written in language of the layman with a view to securing a better understanding of, and support for, the government's fiscal policy. It should receive as wide circulation as possible, especially among commentators, editorial writers, professional and business economists, legislators, business executives and others in a position to influence public opinion either directly or indirectly.

2. The budget speech should be structured along lines similar to the budget document, but, by necessity, must be briefer and less detailed in the information it provides. The need to maintain strict budget secrecy precludes publication of an extensive budget document at the time the budget speech is delivered. It also places a limitation on the type of material that can be incorporated into the speech itself. However, a concerted effort should be made to treat the budget speech as a preview of the larger and more detailed budget document. Release at the time of the budget speech of a budget paper containing parts (a) to (c) of the budget document (see item 1, above) should be considered. These budget papers would replace Part I of the existing budget papers.

3. The dilemma of "the three budgets" cannot be solved in the manner chosen by the United States Government in its 1964 budget document, viz., by publishing and according more or less official sanction to all three budgets—the administrative, national accounts and cash budgets. This practice lead to confusion and, as a result, was modified in the 1965 budget, which attempts to play down the differences between the three budgets. This is not to admit, however, that the United States Government feels that one budget is as good as another for purposes of economic analysis and policy making.

It is recommended that the government present its budgetary proposals within the framework of a cash budget. Certain modifications to the cash budget appearing in Table 2-5 (p. 78) are probably desirable to improve its usefulness for analytical purposes and to preserve some degree of continuity with existing practice. It is suggested, for example, that taxes collected by the federal government on behalf of the provinces be eliminated from both sides of the budget. A useful purpose would also be served by retaining, for the present anyway, the distinction between budgetary and non-budgetary transactions (see Table 2-4, p. 77). Such a distinction would facilitate reconciliation and comparison with the public accounts' statement of budgetary and non-budgetary transactions. To avoid possible confusion with other budget concepts, the cash budget should bear the official caption "Receipts from and Payments to the Public" or some similar title not including the word "Budget". This is particularly the case if a distinction is made in the body of the budget between budgetary and non-budgetary transactions.

4. It might prove desirable to distinguish between receipts and payments that can be considered as active policy variables and transactions that are more suitably treated as passive variables or background material. A budget consisting of only the former type of transaction might be referred to as a "Fiscal Policy Budget".

5. From the point of view of a budget's economic impact, little importance can be attached to the absolute size of a budgetary surplus or deficit. Except for the size of the government's over-all cash requirement or surplus (Excess of Receipts from or Payments to the Public), little emphasis should be placed in the budget document on surpluses and deficits. Persons interested in the implications that a particular budget has for the public debt might better consult directly data on the public debt.

6. In view of the difficulty of adjusting many categories of government receipts and payments for seasonal variation, no useful purpose would be served by presenting <u>all</u> budgetary transactions on a quarterly or monthly basis. However, quarterly or monthly data for some series, notably tax receipts and certain transfer payments, can play an important role in detecting trends in economic activity.

7. The cash budget or statement of receipts from and payments to the public should be followed by a table reconciling cash budget totals with those appearing in the public accounts. Detail of the public accounts' statement of budgetary and non-budgetary transactions should be avoided. The reconciliation should begin with public accounts' totals and proceed to adjust these totals for intragovernmental transactions, other non-cash transactions and the supplementary period, to give total cash receipts and cash payments.

8. It is assumed that the public accounts would continue to perform their functions in the area of financial control and accountability. They would cease to play a major role, however, in the presentation and interpretation of budgetary policy.

It is suggested that the government revert to its practice prior to 1950-51 of including an excess of unemployment insurance benefits over contributions as part of the government's over-all cash requirement. This practice is consistent with the present method of financing an excess of benefits over contributions (non-marketable securities are redeemed at the Treasury). It has the added advantage of bringing about a conceptual equality, except for an adjustment for the supplementary period and a few other minor adjustments, between the public accounts' over-all cash requirement or surplus and the cash budget's "Excess of Receipts from or Payments to the Public".

9. In order to facilitate the analysis of government payments (expenditures), it is recommended that the estimates for each administrative division of the government be classified by function and economic category (e.g., current and capital expenditure on goods and services, transfer payments, etc.). This could be done at the time each item in the estimates is considered by Treasury Board. The present method of classifying budgetary expenditures by function, by reference to the administrative division or administrative unit making the expenditure, is unsatisfactory.

It is noted that estimates for the United Kingdom Government are now broken down by economic classification.

10. An economic classification of government expenditures (payments) requires data on government capital formation and purchases of existing assets. This information is not available at the present time.

11. The budget document's statistical appendix should include (a) the national accounts budget for the fiscal year just ended or about to end and for the new fiscal year, (b) the public accounts' statement of budgetary and non-budgetary transactions, (c) data on government orders and contracts let, (d) data on government commitments, especially in connection with continuing programmes, (e) information on the public debt, (f) data on capital expenditures of crown corporations and (g) a selection of economic indicators and national accounts data. To avoid any confusion that might result from reference to two or three different budget concepts, the national accounts budget should be referred to as "The Federal Government Sector" of the national accounts.

12. In so far as economic stability is one of the objectives of budgetary policy, no purpose would be served by a dual-budget system. Capital budgeting, if anything, increases the difficulty of pursuing a countercyclical fiscal policy.

APPENDIX A

Summary of Norwegian National Budget for 1948 and 1949

(in millions of kroner, gross figures)

	1948 Preliminary Accounts		1949 Budget Estimate	
DOMESTIC PRODUCTION:				
Agriculture	900		795	
Forestry	408		424	
Fisheries	318		282	
Whaling	297		264	
Industries (manufacturing) and handicraft	4,444		4,767	
Building and construction	786		781	
Shipping	1,005		1,055	
Other communications	805		842	
Commerce (wholesale, retail, trades, etc.)	1,368		1,430	
Other stores, less corrections	1,294		1,381	
GROSS NATIONAL PRODUCT		11,625		12,021
IMPORTS:				
Merchandise imports (c.i.f.) (including ships)	3,666		3,974	
Defence imports	96		94	
Current expenditures of ships abroad	640		670	
Current expenditures of whaling abroad	60		60	
Other services, etc.	182		190	
TOTAL IMPORTS		4,644		4,988
TOTAL SUPPLY OF GOODS AND SERVICES		16,269		17,009
EXPORTS:				
Merchandise exports (f.o.b.) (including ships)	2,140		2,230	
Gross freight income of shipping in foreign trade	1,430		1,500	
Other services, etc.	220		225	
TOTAL EXPORTS		3,790		3,955

APPENDIX A (continued)

Summary of Norwegian National Budget

for 1948 and 1949

(in millions of kroner, gross figures)

	1948 Preliminary Accounts		1949 Budget Estimate	
TOTAL GROSS INVESTMENTS:				
CIVILIAN GROSS INVESTMENTS:				
Agriculture	345		242	
Forestry	25		23	
Fisheries	109		125	
Whaling	103		60	
Industries (manufacturing) and handicraft	770		815	
Electricity supply	205		205	
Shipping	976		1,050	
Other communications	556		573	
Commercial (wholesale, retail trades, etc.) and financial activities	70		55	
Stocks	100		200	
Hotel and restaurant trades	19		30	
Dwellings	500		515	
Public administration	8		9	
Health services	21		30	
Education	23		34	
Community houses, churches, amusements, etc.	5		4	
Roads, water and sewage services	60		60	
TOTAL CIVILIAN INVESTMENTS	3,895		4,030	
DEFENCE INVESTMENTS:	75		150	
TOTAL GROSS INVESTMENTS		3,970		4,180
CONSUMPTION:				
PUBLIC CONSUMPTION	1,316		1,383	
PRIVATE CONSUMPTION	7,193		7,491	
TOTAL CONSUMPTION		8,509		8,874
TOTAL DISPOSITION OF GOODS AND SERVICES		16,269		17,009

Source: Adapted from Joseph Grunwald, National Economic Budgeting in Norway, unpublished Ph.D. dissertation, Columbia University, 1950, pp. 114-117.

APPENDIX B

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparative figures for

EXPENDITURE

	Fiscal year ended March 31, 1963	March 31, 1962
Agriculture	$ 234,826,957	$ 286,683,751
Atomic Energy	63,205,370	34,711,614
Auditor General's Office	1,218,834	1,069,939
Board of Broadcast Governors	353,913	311,515
Canadian Broadcasting Corporation	80,815,947	78,160,805
Office of the Chief Electoral Officer	11,815,352	366,474
Citizenship and Immigration	66,237,381	65,016,446
Civil Service Commission	4,792,379	4,738,709
Defence Production	28,837,778	23,929,926
External Affairs	85,196,665	95,571,260
Finance—		
Public debt charges	917,787,239	838,986,401
Fiscal, tax-sharing, subsidy and other payments to provinces	275,302,387	541,182,624
Other expenditure	161,990,212	131,784,164
	1,355,079,838	*1,511,953,189*
Fisheries	23,292,700	23,097,882
Forestry	16,174,971	14,737,929
Governor General and Lieutenant-Governors	467,638	474,156
Insurance	1,422,120	1,358,022
Justice	34,531,655	32,580,184
Labour	348,235,508	168,884,756
Legislation	8,108,063	8,438,007
Mines and Technical Surveys	71,130,401	67,599,290
National Defence—		
Royal Canadian Navy	269,438,503	272,005,671
Canadian Army	443,163,371	442,414,649
Royal Canadian Air Force	713,884,440	781,421,960
Defence research and development	41,089,007	40,444,658
Other expenditure	107,278,340	89,817,374
	1,574,853,661	*1,626,104,312*
National Film Board	5,610,630	5,143,773
National Gallery	987,271	1,053,582
National Health and Welfare—		
Family allowances	531,566,349	520,781,193
Other expenditure	591,854,334	519,494,503
	1,123,420,683	*1,040,275,696*
National Research Council, including the Medical Research Council	40,596,727	38,849,279
National Revenue	78,607,667	75,330,063
Northern Affairs and National Resources	87,563,579	79,367,605
Post Office	189,344,410	185,003,359
Privy Council	5,016,879	4,479,601
Public Archives and National Library	1,035,471	977,899
Public Printing and Stationery	3,977,442	4,010,195
Public Works	171,384,711	188,813,326
Royal Canadian Mounted Police	65,424,359	60,497,037
Secretary of State	4,788,258	4,994,967
Trade and Commerce	30,364,666	42,447,107
Transport	416,019,472	410,391,113
Veterans Affairs—		
Pensions	175,901,737	177,869,638
Other expenditure	159,700,712	155,353,268
	335,602,449	*333,222,906*
Total expenditure	6,570,341,805	6,520,645,674
Budgetary deficit	−691,632,927	−791,021,950
	5,878,708,878	5,729,623,724

Source: Public Accounts of Canada, for fiscal year ended March 31, 1963, Abridged Report, pp. 110–111.

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1963
the preceding fiscal year)

REVENUE

	Fiscal year ended March 31, 1963	March 31, 1962
Tax revenues—		
Income tax—		
Personal[1]	$1,744,626,029	$1,792,655,915
Corporation[1]	1,182,836,979	1,202,053,695
On dividends, interest, etc., going abroad	129,137,372	112,305,709
Excise taxes—		
Sales[1]	805,970,471	759,677,970
Other	260,378,073	262,526,380
Customs duties	644,992,131	534,515,544
Excise duties	381,865,989	362,798,655
Estate tax[2]	87,143,312	84,579,383
Miscellaneous	27,028	51,495
	5,236,977,384	*5,111,164,746*
Non-tax revenues—		
Return on investments	311,860,829	307,502,187
Post Office—net postal revenue	192,771,815	183,678,937
Refunds of previous years' expenditure	22,392,490	18,162,831
Services and service fees	46,185,576	42,452,991
Proceeds from sales	26,531,005	25,901,810
Privileges, licences and permits	25,008,212	23,271,195
Bullion and coinage	9,404,342	7,965,169
Premium, discount and exchange		1,771,425
Miscellaneous	7,577,225	7,752,433
	641,731,494	*618,458,978*
Total revenue	5,878,708,878	5,729,623,724

[1] Excluding tax credited to the old age security fund—

	1962–63	1961–62
Personal income tax	273,650,000	258,950,000
Corporation income tax	115,250,000	100,125,000
Sales tax	302,238,927	284,879,238

[2] Includes duties levied under the Dominion Succession Duty Act.