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Reconsidering the President's Commission on Budget Concepts of 1967

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Introduction

The recommendations of the President's Commission on Budget Concepts of 1967 created the foundation for federal budget processes and presentation that remain in place today. This paper considers the history of federal budgeting between 1921 and 1968; explains the Commission's recommendations; relates significant changes that have been made between 1968 and 2006; and notes current proposals for reforming budget concepts.

Section I: Budget Concepts from 1921 to 1968

The call for formal Presidential involvement in federal budgeting dates to 1921 when Congress passed the Budgeting and Accounting Act ("the Act"). For the first time, the Act required the President to submit an annual budget to Congress and barred individual federal agencies and departments from the practice of making their own appropriations requests. Additionally, the Act established, for the first time, a federal budget support office for the chief executive — the Bureau of the Budget — located in the Department of Treasury. The Act is significant because it established the presidential budget system that has operated for the past 85 years.

Between 1921 and 1968 concepts to measure the federal budget varied greatly as the President had the latitude to select the budget concept he preferred to explain the budget in part or in whole. In general, the federal budget was measured using one or more of the concepts of an Administrative budget; a Consolidated Cash budget; and/or a National Income Accounts ("NIA") budget. Additionally, a fourth budget concept, the Capital budget, which was used widely in State, local and foreign budgeting[1] but not in

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[1] PRESIDENT'S COMM'N ON BUDGET CONCEPTS, REPORT OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS 26 (OCT. 1967) [hereinafter BUDGET CONCEPTS REPORT].

federal budgeting, was discussed by economists as a potential federal financial planning tool.

Prior to 1932, there was only one concept of the "budget," which combined general, special, emergency and trust accounts. In his fiscal 1932 budget, however, President Herbert Hoover separated trust accounts from other funds and became the first to use an Administrative budget concept to explain government spending and receipts. The Administrative budget is a "financial plan for receipts and expenditures of funds owned by the Federal Government, including general funds, special funds, public enterprise funds, and intragovernmental revolving and management funds."[2] In President Franklin D. Roosevelt's first budget message in fiscal 1935, trust funds were not even shown in the same tables as general and special funds as in previous years; all transactions involving trust accounts were shown separately and given lesser prominence. This practice continued until fiscal 1945. From 1945 until fiscal 1954, trust funds were usually shown either side-by-side or following administrative budget funds in the same tables, but no attempt was made in the message tables to combine these funds into a consolidates statement, although this was done elsewhere in the budget document.

In President Dwight Eisenhower's budget messages, beginning with fiscal 1955, there were usually one or two summary tables in which consolidated cash receipts and expenditures appeared, but these were not particularly accented. It was not until fiscal year 1964 that the detailed functional tables were shown on a consolidated cash basis. A consolidated cash budget is a statement that "combines administrative budget transactions with those of trust funds, deposit funds, and Government-sponsored enterprises (with the elimination of certain intragovernmental transactions) to show the flow of cash between

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[2] BUDGET CONCEPTS REPORT, *supra* note 1, at 95.

the Federal Government and the public."[3] A consolidated cash budget is more comprehensive than an administrative budget and though a consolidated cash budget concept had existed in 1940 it did not become a prominent mechanism until almost 20 years later.

A third budget concept, the National Incomes Account, first graced President John F. Kennedy's budget message in fiscal year 1963 and was singled out as the most important measure of the federal government's overall economic impact in 1968 by President Lyndon B. Johnson. "I am emphasizing the national income accounts as a measure of Federal fiscal activity because the traditional administrative budget is becoming an increasingly less complete and less reliable measure of the Government's activities and their economic impact," noted Johnson in the 1968 Budget of the United States. A NIA budget is "a measure of receipts and expenditures of the Federal Government sector of the national income and product accounts. It includes Federal trust fund transactions, but excludes loans and similar transactions since they consist of the exchange of financial assets or physical assets which are not newly produced and therefore do not contribute to current 'income.'"[4] Necessarily, a NIA budget may be the most comprehensive of federal budget concepts.

A fourth budget concept, the Capital budget, first suggested by the Hoover Commission in 1949, was not widely supported by presidents or economists. In the 1963 message, however, highlights of "capital" and "developmental" outlays were considered innovative and investment-type outlays continued to be emphasized in subsequent messages until the 1968 message. A Capital budget is one that segregates capital

[3] PRESIDENT'S COMM'N ON BUDGET CONCEPTS, PRESIDENT'S COMMISSION ON BUDGET CONCEPTS: STAFF PAPEPERS 101 (1967) [hereinafter PRESIDENT'S COMM'N STAFF PAPERS].
[4] PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 99.

investments from operating expenditures."[5]

The type of budget concept employed by each President could be manipulated to emphasize particular budget successes and Presidents often used one or more of the three primary budget concepts to explain the fiscal activities of the federal government. There was no unified federal budget. (See Table 1—attached—from the staff papers on the President's Commission on Budget Concepts illustrates the variance with which presidents relied on different budget concepts by the number of tables and charts in his budget message.)

Need for Reform

As the President's use of different and often competing budget concepts evolved, confusion among the public and press grew. The staff papers of the President's Commission on Budget Concepts notes the public confusion caused by the use of multiple budgets:

> *That this confusion extends to press coverage is evidenced by the presentation of the 1968 budget headline story. The Associated Press used the administrative budget total as its lead, as typified in the Detroit Free Press, which carried the headline "LBJ's Budget Hits Record $135 Billion." The United Press International used the consolidated cash total as it lead, with the typical headline being "1968 Budget Hits Record $172.4 Billion." The New York Times headline read "$169.2 Billion Budget Provides $73 Billion for Defense and Limited 'Great Society' Rises," using the NIA budget total.*[6]

Further, various economists and financial analysts criticized and supported different concepts.

Normative Questions Considered by the Commission

The Commission was concerned with the needs and views of Congress as the

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[5] ALLEN SCHICK, THE FEDERAL BUDGET: POLITICS, POLICY, PROCESS 289 (rev. ed. 2000).
[6] PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 40.

"number one customer"[7] for the President's budget message. Recognizing that "in a complex modern world, the Federal budget is necessarily a formidable document," President Johnson tasked the Commission with "clarifying the presentation of the budget and increasing its usefulness to the Congress and the public."[8] With that end in mind, the Commission considered the following normative questions:

(1) "Should the budget be a "unibudget," with a single surplus or deficit figure, or a "multibudget," with several parts and several surpluses or deficits?

(2) If a "multibudget" is used:

   a. How should the budget be organized and how much detail should be presented in each category?
   b. Should the transactions of the Federal Reserve System be integrated into the budget?

(3) If, instead, a "unibudget," with a single surplus or deficit figure is deemed desirable (ignoring problems of timing and internal consistency):

   a. Should Federal lending be counted as a budget expenditure as in the present consolidated cash budget? Or should it be excluded as in the present national income accounts (NIA) budget, but with a provision for counting as expenditures the subside elements in lending programs (which is not now done in the NIA budget)?
   b. If the "adjusted" NIA budget is used, how should the subsidy elements in Federal loans be calculated?
   c. How should federally guaranteed and insured loans be treated in the budget, whether cash or NIA?

(4) Is there a relatively simple measure of the fiscal impact of the budget? If so, should it be included as a part of the budget message, left to the President's annual economic report, or should no recommendation about its use be made?

(5) How far should accrual accounting, as opposed to cash accounting, be carried in the budget?"[9]

[7] PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 3.
[8] BUDGET CONCEPTS REPORT, *supra* note 1, at 108.
[9] PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 490–91.

Presidents & Fiscal Year	Total number of tables	Total number of charts	***Table I. Tables and Charts in the President's Message***					
			Administrative budget	Consolidated cash budget	National income accounts	Trust, special, or other funds not consolidated	New obligational authority or appropriation	"Out put"
Harding: 1923	5	--	--	4	--	--	1	--
1924	3	--	--	2	--	--	1	--
Coolidge 1925	2	--	--	1	--	--	1	--
1926	2	--	--	1	--	--	1	--
1927	2	--	--	1	--	--	1	--
1928	2	--	--	1	--	--	1	--
1929	2	--	--	1	--	--	1	--
1930	2	--	--	1	--	--	1	--
Hoover: 1931	4	--	--	2	--	--	2	--
1932	4	--	--	2	--	--	2	--
1933	2	--	1			1	1	--
1934	3	--	--	2	--	--	1	--
Roosevelt: 1935	4	--	4	--	--	--	--	--
1936	4	--	4	--	--	--	--	--
1937	3	--	2	--	--	--	1	--
1938	2	--	1	--	--	--	--	--
1939	2	--	1	--	--	1		1
1940	4	--	2	--	--	--	--	--
1941	1	--	1	--	--	--	--	--
1942	4	--	4	--	--	--	--	--
1943	--	--	--	--	--	--	--	--
1944	2	--	2	--	--	--	--	--
1945	3	--	3	--	--	--	--	--
1946	3	--	2	1	--	--	1	--
Truman: 1947	4	--	3	1	--	--	--	--
1948	19	--	14	--	--	--	5	--
1949	19	--	15	--	--	--	13	--
1950	21	--	16	--	--	--	14	1
1951	21	--	16	--	--	--	13	1
1952	19	--	15	--	--	--	12	--
1953	20	--	16	--	--	--	13	--
1954	20	--	16	--	--	--	14	--
Eisenhower 1955	37	--	25	1	--	4	21	--
1956	26	--	19	1	--	4	12	--
1957	27	--	19	1	--	3	14	--
1958	24	11	17	1	--	3	13	--
1959	17	2	14	1	--	1	13	--
1960	23	3	19	2	--	2	12	--
1961	22	2	21	2	--	--	18	--
1962	23	2	20	2	--	--	18	--

Section II: Report of the President's Commission on Budget Concepts

The President's Commission on Budget Concepts of 1967 attempted to address three main criticisms of the budget. These criticisms focused on "(1) confusion arising from the number of competing concepts of budget totals currently used or stressed in the President's budget message and the relationships between them; (2) the appropriate accounting treatment of individual items or groups of items and the effect of such treatment on the budget totals; and (3) the search for better congressional and public understanding of the budget program and more up-to-date availability of budget information."[10] The Commission's report made numerous recommendations to address these criticisms and to "make the budget of the United States Government a more understandable and useful instrument of public policy and financial planning."[11]

The Commission presented its recommendations under the following broad categories: (a) purposes of the budget, (b) coverage of the budget, (c) accounting for expenditures and receipts, (d) federal credit programs, (e) financing of budget deficits, and (f) public information about the budget. It highlighted thirteen of them as major recommendations that it thought deserved the most attention and consideration. These thirteen recommendations and the categories they appeared are explained below.

Purposes of the Budget

1. According to the Commission, its "most significant recommendation" was that a unified budget concept replace the three competing budget concepts that were both "confusing to the public and the Congress and deficient in certain essential

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[10] BUDGET CONCEPTS REPORT, *supra* note 1, at 1.
[11] BUDGET CONCEPTS REPORT, *supra* note 1, at 1.

characteristics."[12] It believed that a single, comprehensive budget would further what it considered the two most important purposes of the budget: "The efficient allocation of resources by government, and the formulation of fiscal policy to benefit the national economy."[13] The unified budget would help to further these purposes by compiling in one place for policymakers and the public information about budget appropriations; budget receipts, expenditures, and net lending; means of financing the deficit; and outstanding federal securities and loans.

Coverage of the Budget

2. The Commission wanted the budget to be comprehensive and unified not simply to prevent confusion over the total budget deficit or surplus number, but also to be "a broad financial plan, which includes – in addition to budget appropriations, receipts, expenditures, and net lending – the means of financing the budget deficit (or use of a surplus) and information about borrowing and loan programs of the Government and its agencies."[14] It thought that presenting the budget as a financial plan would help to further the purposes of the budget.

3. In the same vein, the Commission also suggested that the budget presentation give more prominence to spending and revenue actions that the President requested of Congress.[15] Again it wanted the budget to provide policymakers and the public with a bigger, more accurate picture of how and why the federal government raises and spends taxpayer dollars.

4. Since the Commission wanted the budget to serve as a comprehensive financial

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[12] BUDGET CONCEPTS REPORT, *supra* note 1, at 6.
[13] BUDGET CONCEPTS REPORT, *supra* note 1, at 6.
[14] BUDGET CONCEPTS REPORT, *supra* note 1, at 6.
[15] BUDGET CONCEPTS REPORT, *supra* note 1, at 7.

plan it recommended that the budget include "all programs of the Federal Government and its agencies."[16] This recommendation was intended to make the new unified budget comprehensive. The Commission wanted the new budget to show all federal revenues and spending in order to more accurately portray the federal government's affect on the economy. The Commission specifically addressed whether several borderline programs and activities should be included in the unified budget. Significant among these programs were trust funds. As a result, the Social Security trust fund was added to the unified budget when it was created. The Commission concluded that the receipts and expenditures of trust funds should be included in the budget. This recommendation has had the effect of including trust fund surpluses, such as Social Security trust fund's, in the budget.

13. The thirteenth major recommendation also appears under the "Coverage of the Budget" category. This recommendation was negative in character. The Commission "strongly" stated that the federal government should not adopt a 'capital budget' "which would provide separate financing of capital or investment expenditures on the one hand and current or operating expenditures on the other."[17] It believed that capital budgeting would make the budget a less effective decision-making tool because it would distort the budget's presentation of cash-flows between the government and the private sector.

Accounting for Expenditures and Receipts

5. The Commission recommended that "budget expenditures and receipts be reported on an accrual basis instead of the present cash basis."[18] It contended that accrual accounting of spending, such as defense spending, would make the budget a better tool

[16] BUDGET CONCEPTS REPORT, *supra* note 1, at 7.
[17] BUDGET CONCEPTS REPORT, *supra* note 1, at 9.
[18] BUDGET CONCEPTS REPORT, *supra* note 1, at 7.

for “understanding the economic impact of the budget.” Accrual accounting of spending provides policymakers and the public with a picture of government obligations going forward as opposed to just a snapshot of how much cashed the government has handed out at a particular moment in time. The Commission also recommended the accrual accounting of receipts. It noted that recognizing tax receipts on an accrued basis would be particularly difficult in the area of personal income taxes since it is hard to predict how much individuals will pay in taxes. With that said, the Commission thought that yearly adjustments could be made to account for errors made in accruing.

Federal Credit Programs

6. According to the Commission one of the most difficult questions it faced was how to deal with federal loan outlays in the budget. It concluded that the budget should make a “distinction between loans and other expenditures within the budget (and the calculation of the expenditure account surplus or deficit which excludes loans)” because loans have a “direct impact on employment and incomes.”[19]

7. The Commission made a specific recommendation regarding direct loans. It stated that a “[s]eparate identification of the subsidies involved in Federal direct loan programs should be added to existing budget information to help promote the more efficient use of public resources.”[20]

8. In contrast to direct loans, the Commission recommended that the budget should not reflect federal insurance programs or federal guarantees of private “since they initially represent neither Federal expenditures nor Federal borrowing.”[21] This recommendation fit with the Commission’s desire to have the budget display how much

[19] BUDGET CONCEPTS REPORT, *supra* note 1, at 8.
[20] BUDGET CONCEPTS REPORT, *supra* note 1, at 8.
[21] BUDGET CONCEPTS REPORT, *supra* note 1, at 8.

the federal government was taxing and spending.

9. Because the Commission considered the sale by the government of "participation certificates" in loans to be a means of financing the deficit, it recommended that such sales not be counted as deductions from expenditures in the derivation of the deficit.[22]

Financing of Budget Deficits

10. The Commission recommended that the "budget summary should include a means of financing section based on the budget deficit or surplus."[23] This recommendation changed the concept of federal debt that prevailed at the time. It removed from the federal debt public debt and agency securities held by such agencies and by trust funds, and added to it public debt securities issued by federal government agencies.

Offsetting Receipts Against Expenditures

11. Since the Commission wanted the budget to reflect the financial activities of the government that are governmental in character it recommended that non-tax receipts the government gets in business-style transactions, such as user fees for a national park, "should be treated as offsets to expenditures to which they are related."[24] This accounting concept was intended to ensure that the budget's expenditure and receipt accounts reflected activities connected to the government's sovereign powers and duties.

Public Information About the Budget

12. The Commission considered one purpose of the budget to be providing the public with timely and accurate information about governmental activities in order to

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[22] BUDGET CONCEPTS REPORT, *supra* note 1, at 8.
[23] BUDGET CONCEPTS REPORT, *supra* note 1, at 9.
[24] BUDGET CONCEPTS REPORT, *supra* note 1, at 9.

assist the democratic process. With that purpose in mind, the Commission recommended that the "[c]ommunication of budget information to the Congress and the public should be (1) more frequent by providing within-year revisions of January estimates, (2) more detailed in terms of breaking down aggregate budget figures into quarterly or semi-annual units, and (3) more comprehensive by making estimates which extend further into the future."[25]

Section III: Significant Changes In Budget Concepts Since 1967

While the unified budget concepts established by the Commission have endured in general as a successful framework, some have been revised during the past four decades.

Credit Reform Act of 1990

How to calculate the subsidy element in federal loan programs was a vexing problem for the 1967 Commission. In fact, in debate over the cash versus adjusted NIA budget and in the discussion of the sub-budget categories of a multibudget, the treatment of federally insured and guaranteed loans seemed to be a recurring theme. One staff paper explored the idea of putting federal lending "off-budget" and calculating a subsidy component for such expenditures to be included "on-budget." Some commission members, however, articulated that this approach would be problematic with regard to the subsidy component for federal lending programs since three subsidy elements would have to be identified and computed in order to make the expenditure imputation. They were: "(1) The difference between the lending rate and the Treasury borrowing rate on securities of comparable maturity; (2) The difference in risk between a Treasury security and the loan extended by the Government; and (3) The agency costs of administering the

[25] BUDGET CONCEPTS REPORT, *supra* note 1, at 9.

loan programs."[26] Another commission member observed that "while he found no conceptual objection to the loan subsidy imputation in the budget, there is the problem of consistency — tariffs, price supports and the tax structure, for example, all involve implicit subsidies."[27] With regard to this issue the committee made five recommendations:

> (1) The summary budget presentation should show most direct loans (on the basis of their unsubsidized value) separately from other expenditures;
>
> (2) A surplus or deficit should be presented in the budget, to be calculated by comparing expenditures other than loans with total budget receipts;
>
> (3) Subsidy elements in all loans, however, should be included in a surplus or deficit calculation and specifically disclosed in the expenditure rather than the loan account of the budget since subsidies are much more like grants than loans.
>
> (4) Foreign loans made on noncommercial terms or loans in name only should be reflected in the expenditure rather than the loan account of the budget.
>
> (5) The budget summary should show separately gross loan disbursements and loan repayments, in addition to net lending.
>
> (6) Participation certificates should be treated as a means of financing, not as an offset to expenditures which operates to reduce a budget deficit.[28]

Between 1968 and 1990, these are the tenants by which treatment of the loan programs in the federal budget were guided.

Over time, however, problems with the budgetary treatment of the loan programs became obvious. According to a Government Accountability Office ("GAO") report, cash-basis accounting "distorted costs and, thus, the comparison of credit program costs

[26] PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 498.
[27] PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 499.
[28] BUDGET CONCEPTS REPORT, *supra* note 1, at 47–48.

with other programs intended to achieve similar purposes, such as grants. It also created a bias in favor of loan guarantees over direct loans regardless of the actual cost to the government. Loan guarantees appeared to be free in the short run while direct loans initially appeared to be as expensive as grants because the budget did not recognize that at least some of the guaranteed loans would default and that some of the direct loans would be repaid. For direct loans, the budget for most discretionary accounts used revolving funds, which showed budget authority and outlays in the amount that loan disbursements, in the current year, exceeded repayments received from all past loans in that budget year. This cash approach overstated direct loan costs in the initial years of a program when loan disbursements were likely to be greater than repayments. Conversely, this treatment understated costs in later years when loan repayments were more likely to be much larger relative to disbursements. In contrast, for loan guarantees, the budget did not record any outlays when the guarantees were made (except the negative outlay resulting from any origination fees), even though the program was likely to entail future losses. Budget authority and outlays were recorded only when defaults occurred."[29]

The Credit Reform Act of 1990, which was incorporated into the Congressional Budget Act of 1974 as a new Title V by the Omnibus Budget Reconciliation Act of 1990, arguably is the single largest process change to the Commission's 1968 recommendations. Between 1968 and 1992 federal credit activities were measured on a cash-basis and were monitored in the federal budget by tracking the level of direct loan obligations and loan guarantee commitments. "The Federal Credit Reform Act changed the budget treatment of credit programs so that their costs can be compared more

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[29] U.S. GENERAL ACCOUNTING OFFICE, CREDIT REFORM: GREATER EFFORT NEEDED TO OVERCOME PERSISTENT COST ESTIMATION PROBLEMS (GAO/AIMD-98-14) (Mar. 1998) [hereinafter GAO CREDIT REFORM REPORT], *available at* http://www.gao.gov/archive/1998/ai98014.pdf.

accurately with each other and with the costs of other federal spending. It also was intended to ensure that the full cost of a credit program over its entire life would be reflected in the budget when the loans were made so that the executive branch and the Congress might consider that cost when making budget decisions."[30] In addition, the Credit Reform Act recognized that credit programs had different economic effects than most budget outlays, such as purchases of goods and services, income transfers, and grants.

Federal Accounting Standards Advisory Board

The private sector and state and local governments have had independent accounting standards-setting bodies — the Financial Accounting Standards Board ("FASB") and the Government Accounting Standards Board ("GASB") — since 1973 and 1984 respectively. A similar body was not created for the federal government until 1990. "On the federal government side of the ledger, the responsibility for financial reporting resided with the General Accounting Office (now the Government Accountability Office), the United States Treasury, and the Office of Management and Budget ("OMB"). Over the years, all three entities issued guidance that addressed financial reporting issues. Most of this guidance was consistent, although there were cases of conflict."[31] The Chief Financial Officers Act of 1990[32] required the federal government, for the first time, to establish audited financial statements, in accordance with "applicable standards," for selected entities. An October 1990 Memorandum of

[30] GAO CREDIT REFORM REPORT, *supra* note 29.
[31] INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD, THE ROAD TO ACCRUAL ACCOUNTING IN THE UNITED STATES (Mar. 2006) [hereinafter ROAD TO ACCRUAL], *available at* http://www.ifac.org/Members/DownLoads/Accrual_Accounting_information_paper.pdf.
[32] Pub. L. 101-576, 104 Stat. 2838, and is codified, as amended, at 31U.S.C. §§ 503, 504, 901, 902, 903.

Understanding[33] between the Secretary of the Treasury, the Director of the OMB, and the Comptroller General of the United States jointly created the Federal Accounting Standards Advisory Board ("FASAB") to articulate recommendations regarding accounting principles and standards for the federal government.[34] "The FASAB parallels the FASB and the GASB in many respects. One key difference is that because FASAB involves both the executive and legislative branches of the federal government, as well as the private sector, in jointly developing accounting standards, compliance with the U.S. Constitution requires that an administratively established FASAB have the legal status of an advisory board."[35]

Today, one example of a federal financial document that utilizes FASAB accounting standards is the annual *Financial Report of the United States Government* ("the Report") issued by the Department of Treasury. The Report includes assets, liabilities and net costs of the federal government using accrual rather than cash-based accounting. "The primary goal of the financial report is to provide a statement of the government's net financial position and how that position changed—in terms of the income the government received and the expenses it incurred — during the fiscal year."[36] The statement consolidates the reports of individual federal departments and agencies.

The federal budget document, on the other hand, "has two primary reporting

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[33] FINANCIAL ACCOUNTING STANDARDS ADVISORY BOARD, MEMORANDUM OF UNDERSTANDING, Oct. 1990, http://www.fasab.gov/pdffiles/mou05222003.pdf.
[34] For additional information about FASAB and the federal budget process, see DAVID BURD & TAKESHI FUJITANI, FASAB AND THE FINANCIAL STATEMENTS OF THE UNITED STATES: COMPARING BUDGET AGGREGATES TO FINANCIAL STATEMENTS (May 2005), http://lawweb.usc.edu/cslp/conferences/fiscal%20challenges/documents/13-FASAB.pdf#search='fasab'.
[35] ROAD TO ACCRUAL, *supra* note 31.
[36] CONGRESSIONAL BUDGET OFFICE, MEASURES OF THE U.S. GOVERNMENT'S FISCAL POSITION UNDER CURRENT LAW (Sept. 2004) [hereinafter CBO FISCAL POSITION REPORT], http://www.cbo.gov/ftpdocs/57xx/doc5771/08-31-MeasuringFinancialPosition.pdf#search='fASAB%20and%20federal%20budget'.

functions. The first is to report on the past and expected flows of cash into and out of the U.S. Treasury, and for the most part, the budget assigns those cash flows to the year in which they occur. Specifically, the budget reports revenues and expenditures for the past year; estimates revenues, obligations, and expenditures for the current year; and projects future revenues and spending for five- or 10-year periods on the basis of current law."[37] The second function of the budget is to provide reliable information to Congress so that it can make decisions about funding government's programs and activities and to present a comprehensive proposal from the President for spending during the budget year and subsequent periods. "The President's budget records and projects each step in the process — from the provision of budget authority through an agency's obligation of funds to the resulting outlays from the Treasury. A key measure of fiscal balance for the federal budget is the surplus or deficit in a given year — the difference between revenues received by and outlays from the Treasury."[38]

One important difference between the Financial Statement and budget documents is that the balance sheet — one component of the Financial Statement — "does not include all federal assets and foreseeable outflows of resources. Specifically, some government assets are not considered spendable resources, and many of the government's potential commitments do not meet the high threshold requirements for a recorded asset or liability."[39] Further, "in keeping with its focus on the financial effects of events that have already occurred, the balance sheet also omits what many regard as the government's most valuable "asset": its power to levy taxes. Future tax receipts (excluding those that currently constitute a "receivable," in accounting terms) are omitted

[37] CBO FISCAL POSITION REPORT, *supra* note 36.
[38] CBO FISCAL POSITION REPORT, *supra* note 36.
[39] CBO FISCAL POSITION REPORT, *supra* note 36.

because they do not meet FASAB's definition of an asset, which requires not only the likelihood of future economic benefit but a past event that conveyed ownership or control to the reporting entity. Thus, future income tax revenues are not counted as an asset to the government until taxable income is earned and taxes on it are collectible."[40] The use of long-term projections, however, are now included in both federal budget documents and the Financial Statement.

"The federal budget includes the government's recent past, current, and near-term future revenues and expenditures generally on a cash-flow basis. By contrast, the government's financial statements report cumulative (past) net flows as well as some of the assets that the government owns or controls and the liabilities that it owes."[41] The 1967 Commission wanted to develop a standard budget procedure through which the President would deliver his message to Congress and to the pubic. It also wanted to make the budget document as comprehensive as possible. As a result, the differences between the budget document and FASAB can in part be explained by the differences between the nature of budgeting and financial accounting; some of the component parts of the budget cannot be accurately explained through accounting mechanisms generally utilized in the private sector.[42] "For business enterprises, the budget represents an internal financial management plan. For government, the budget is an expression of public policy priorities and, in most cases, serves to legally authorize the purposes for which public funds can be spent."[43] The Commission understood this difference when it chose a modified cash-based system as the primary measurement tool over a system of accrual

[40] CBO FISCAL POSITION REPORT, *supra* note 36.
[41] CBO FISCAL POSITION REPORT, *supra* note 36.
[42] Defense contract awards and goods inventories were specifically cited.
[43] ROAD TO ACCRUAL, *supra* note 31.

accounting. In doing so, the Commission recognized that no single set of budget totals serves every need and purpose and that ancillary documents and accounting mechanisms would be employed to more completely describe the financial condition of the federal government. Like other federal accounting and financial tools used to express the economic well-being of the federal government — the monthly Treasury Statement, for example — the 1967 Commission would likely see the FASAB standards and the budget document as complimentary rather than competitive, though staff papers and reports did not anticipate the creation of an entity like the FASAB. With that said, it is worth noting that Elmer B. Staats, the first Chairman of the FASAB (from 1990-1997) was also a member of the 1967 President's Commission on Budget Concepts[44] and Comptroller General of the United States.

Section IV: Critiques of 1967 Report and Reform Proposals

The budget concepts set forth in the report of the 1967 Commission continue to guide the contemporary budget process. Even though the report has no legal authority it "remains to this day the most authoritative statement on federal budgetary accounting concepts and principles."[45] Some budget experts continue to support the report's most important recommendation: presenting a single comprehensive, unified budget for the federal government.[46] They believe that it makes sense to have one comprehensive budget that policymakers and the public can turn to for information about the financial

[44] Included in the staff papers of the President's Commission on Budget Concepts is a memorandum written by Staats regarding "Coverage of the Budget: Government Sponsored Enterprises" and no mention of accrual accounting is made. PRESIDENT'S COMM'N STAFF PAPERS, *supra* note 3, at 187−195.
[45] *Federal Budget Process Structural Reform: Hearing Before the H. Comm. on Budget*, 107th Cong. (2001) (statement of Barry B. Anderson, Deputy Director, Congressional Budget Office) [hereinafter *Anderson Congressional Statement*], *available at* http://www.cbo.gov/showdoc.cfm?index=2932&sequence=0.
[46] *Budget Process Reform: Conference by Committee for a Responsible Federal Budget* (statement by Barry B. Anderson, Deputy Director, Congressional Budget Office) (Sept. 1999) [hereinafter *Anderson CRFB Statement*], http://ftp.cbo.gov/showdoc.cfm?index=1563&sequence=0.

condition of the federal government.[47]

Although experts still support the unified budget system established by the 1967 Commission some experts think that its recommendations need to be updated. They think that the recommendations have not kept apace of almost forty years of policy and legislative changes. Barry Anderson, Deputy Director of the Congressional Budget Office, expresses the thoughts of these experts when he states:

> The budget process and the environment in which it functions have changed and today there is a real need for a new commission on budget concepts. In 1967, there was no explicit Congressional Budget Process and no BEA. The country had not experienced runaway peacetime budget deficits. Uncontrolled mandatory spending was primarily an academic concern. Baby boomers were entering the labor force, not preparing to retire. The tax code and most Federal policies seemed much simpler then. The case for a single comprehensive budget remains as compelling today as in the 1960's, but that does not answer questions about when, how and what Federal activities are to be scored in the unified budget.[48]

Some budget experts, like Anderson, think the time is right for a new budget concepts commission to "enhance and bring order to the current debate on reforming the budget process."[49] They believe that the main budget problems of today are similar to the main problems that led to the creation of the 1967 Commission. First, there is confusion over competing budget concepts. Second, there are serious questions about the appropriate accounting treatment of certain budget items. Third, Congressional and public understanding of the budget needs improvement, as demonstrated by recent public

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[47] *Anderson Congressional Statement*, *supra* note 45.
[48] THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET, FEDERAL BUDGET PROCESS: RECOMMENDATIONS FOR REFORM 43–44 (2000) [hereinafter CRFB REPORT], *available at* http://www.crfb.org/pdf/2000/RecommendationforReform.pdf.
[49] CRFB REPORT, *supra* note 49, at 43–44. Budget experts have called for a new budget concepts commission for at least the past fifteen years. During the 1992 presidential election, Charles Zwick and Peter A. Lewis suggested in an op-ed piece that the new president-elect should appoint a new bipartisan commission to study budget rules. Peter A. Lewis & Charles Zwick, *The Truth About the Deficit*, N.Y. TIMES, Oct. 4, 1992. They argued that the public debate about the deficit during the 1992 election highlighted the need for a new commission because it showed that the deficit varied depending on the budge concepts one used.

discussion of Social Security. [50] Since these reasons were compelling enough to cause the creation of a budget concepts commission in 1967 these experts think they should be compelling enough to cause the creation of a new commission comprised of experts, including representatives from the Executive branch and Congress.[51] Some budget reformers have even suggested that budget concept commissions should meet every ten or twenty-five years to address the new problems and challenges that develop over time.[52]

Proponents of a new budget concepts commission contend that the current budget process is confusing just as it was in the 1960s. In the 1960s, as mentioned above, confusion about the budget arose because there were three competing budgets: the national income accounts budget, administrative budget, and consolidated cash budget. The unified budget was supposed to get rid of this confusion. But some experts contend that the advent of "on-budget" and "off-budget" presentations of the budget has led to a situation like the 1960s where three different budget presentations confuse Congress and the public.[53] Similarly, these new commission proponents assert that the government faces complex questions about the appropriate accounting treatment of certain budget items just as it did in the 1960s. According to Anderson, policymakers and experts in the 1960s were "unhappy with accounting for loans, business-type receipts, and debt financing other than borrowing. Today their counterparts are concerned about budgetary treatment of tax credits and a large number of purely financial transactions including transfers of Treasury securities to trust funds and Federal purchases of private marketable

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[50] BUDGET CONCEPTS REPORT, *supra* note 1, at 1.
[51] CRFB REPORT, *supra* note 49, at 39.
[52] CRFB REPORT, *supra* note 49, at 39.
[53] CRFB REPORT, *supra* note 49, at 43-44.

securities."[54]

The advocates of a new budget concepts commission have suggested numerous issues that such a commission should address. The Committee for a Responsible Federal Budget, a long-standing organization comprised of former Congressmen, government officials, and other budget expert, thinks that a new commission should tackle issues, such as:

- **Cash accounting vs. Accrual accounting:** "A shift from strict cash accounting to accruals for insurance programs – and perhaps for a limited number of other governmental financial activities. For example, employees' full accruing retirement costs under the old military and civil service retirement systems could be charged as agency cost and recorded as budget authority."[55]

- **Budgetary Treatment of Private Securities:** "How to account for or score Federal government investments in private securities. There are a number of proposals currently under consideration for Treasury to make such investments. The 1967 Budget Concepts Commission never considered the issue. There is no consensus among experts regarding the proper budgetary treatment of such investments."[56]

Anderson has also testified and written about budget concepts that he thinks need to be evaluated by a new budget concepts commission.[57] In 2001, during a House Budget Committee hearing about "Structural Reform of the Federal Budget Process" he highlighted four current budgetary issues created by new legislation and policies that he thinks the 1967 Commission report does not address. First, the Commission's recommendation regarding the scope of the budget is inadequate. The Commission's suggestion that the budget should include all federal activities "provides little or no guidance on how to treat public/private partnerships such as Amtrak and similar hybrid

[54] CRFB REPORT, *supra* note 49, at 43-44.
[55] CRFB REPORT, *supra* note 49, at 39.
[56] CRFB REPORT, *supra* note 49, at 39.
[57] *Anderson CRFB Statement, supra* note 46.

entities."[58] Second, the Commission's recommendations about taxes and spending do not explain how to deal with the increased manipulation of tax and spending laws. The 1967 envisioned a budget with a clear division between spending and revenues. But increasingly that division is blurred by the "use of so-called refundable tax credits and certain fees as devices for expanding budgetary resources for spending programs."[59] Third, the Commission's recommendation that the budget include trust funds may confuse rather than enlighten policymakers and the public. Federal trust funds and other earmarking devices in the federal budget "may distort the overall budgetary choices that lawmakers face each year."[60] Fourth, the Commission's recommendations could not address the issues raised if the government began to invest in private stocks and bonds as part of an overhaul of Social Security. The concepts of the 1967 report simply do not distinguish between the government's investment in private financial securities and non-financial assets.[61]

During the past four decades there has been at least one presidential commission that reevaluated a budget concept considered by the 1967 Commission. In 1997 President William Clinton created a commission to study capital budgeting. Under a capital budget, the government borrows funds to make capital investments, such as constructing government buildings, and the budget records only the annual usage cost of the capital investment.[62] The 1967 Commission strongly recommended against adopting capital budgeting. The final report of the 1999 President's Commission to Study Capital

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[58] *Anderson Congressional Statement*, *supra* note 45.
[59] *Anderson Congressional Statement*, *supra* note 45.
[60] *Anderson Congressional Statement*, *supra* note 45.
[61] *Anderson Congressional Statement*, *supra* note 45.
[62] ALAN J. AUERBACK, ET AL., BUDGET BLUES: THE FISCAL OUTLOOK AND OPTIONS FOR REFORM (Brookings Institution, Discussion Paper No. 10., May 2003), *available at* http://www.urban.org/UploadedPDF/310778_TPC_DP10.pdf.

Budgeting also concluded that the government should not switch to it now.[63] The commission determined that a transition to capital budgeting was problematic because "the definition of capital is ambiguous, [and it] would be subject to abuse, and may turn out to encourage spending rather than discourage it."[64] But the commission did recommend that capital budgeting "should be considered in broader context by a new budget concepts commission."[65]

[63] PRESIDENT'S COMM'N TO STUDY CAPITAL BUDGETING, REPORT OF THE PRESIDENT'S COMMISSION TO STUDY CAPITAL BUDGETING (FEB. 1999), *available at* http://clinton2.nara.gov/pcscb/report.pdf.
[64] AUERBACK, *supra* note 63.
[65] CRFB REPORT, *supra* note 49, at 39.

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