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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Federal Budget

Following this article are notes on the preparation of the Federal Budget and an explanation of certain budgetary terms.

Last Monday, January 17, President Eisenhower transmitted to Congress his budget for the fiscal year 1956. The budget, the second prepared wholly by the Eisenhower administration, projects a $2,408,000,000 deficit on the basis of receipts and expenditures estimated at $60,000,000,000 and $62,408,000,000 respectively. The estimated deficit is about half that expected for fiscal 1955; and the deficit expected will be the fifth in succession.[1]

The following table gives figures taken from charts accompanying the budget message that showed the principal parts of the budget dollar as income and outgo.

THE BUDGET DOLLAR

Where It Will Come From	*Cents*
Individual income taxes	48
Corporate income taxes	26
Excise taxes	15
Customs and other taxes	7
Borrowing	4
Where It Will Go	*Cents*
Major national security (defense)	65
Charges fixed by law—interest, veterans, grants to States, etc.	24
All other	11

Budget Receipts

The President's budgeted receipts of $60,000,000,000 reflect moderate optimism for personal income and business profits. Personal income is expected to increase 4 percent to $298,500,000,000 in calendar year 1955, and this rate of increase is assumed to carry over into 1956. Personal income in fiscal 1956 is expected to yield $32,500,000,000 in individual income taxes in fiscal 1956, compared with $30,700,000,000 in fiscal 1955.

[1]During the past 26 years only three budgets have been balanced. These were for the years 1947, 1948, and 1951.

To Annual Sustaining Members:

We often receive requests for information about the advantages and disadvantages of foreign trade, tariffs, etc. Therefore, we have accepted the Schalkenbach Foundation's offer to send us copies of their booklet, *Free Trade, America's Opportunity*, for distribution to our supporters. Regardless of your own views on tariff matters, we believe that you will find this booklet worth reading. If you do not receive your copy shortly, please let us know.

Corporate profits are expected to increase about 7 percent in the calendar year 1955 to an annual rate of $38,500,000,000. However, because of (1) last year's tax reductions and (2) the acceleration in time of payment of corporate taxes, receipts from corporate taxes in fiscal 1956 are expected to decrease from $18,470,000,000 in fiscal 1955 to $17,030,000,000.

Budgeted receipts of $60,000,000,000 are based on the assumption (1) that there will be no further reductions in taxes during fiscal 1955—the President has already recommended in his state of the Union message that presently scheduled reductions in rates of excises and

SUMMARY OF THE NATIONAL BUDGET
Fiscal Years 1954-1956
(in billions)

Item	*Actual* 1954	*Estimate* 1955	1956
Budget Receipts			
Individual income taxes	$32.38	$30.70	$32.50
Corporation income and excess-profits taxes	21.52	18.47	17.03
Excise taxes	10.01	9.07	9.35
Employment taxes	5.43	6.08	7.09
Estate and gift taxes	.95	.93	.97
Customs	.56	.57	.57
Miscellaneous receipts	2.32	2.30	2.49
Deduct			
Refunds and appropriations to old-age, survivorship, and retirement funds	—8.52	—9.12	—10.00
Total budget receipts	$64.65	$59.00	$60.00
Budget Expenditures			
Major national security (defense)	$46.52	$40.64	$40.46
International affairs and finance	1.72	1.42	1.32
Veterans' services and benefits	4.26	4.43	4.64
Welfare, health, and education	2.24	2.32	2.31
Agriculture and agricultural resources	2.56	3.13	2.26
Natural resources	1.21	1.13	.95
Commerce and manpower	1.58	2.55	2.19
General government	1.21	1.22	1.57
Interest	6.47	6.56	6.38
Reserves	....	.10	.32
Total budget expenditures	$67.77	$63.50	$62.40
Budget deficit	3.12	4.50	2.40

corporate income taxes be canceled—and (2) that postal rates will be increased to yield an additional $400,000,000.

Budget Expenditures

In a slightly different and somewhat more detailed breakdown of expenditures than that reported in the table "The Budget Dollar," the President reports that of every dollar budgeted for expenditure in fiscal 1956, 67 cents will go "for the major programs for protection against possible war," 19 cents will be devoted to "costs of vaious programs combined under the heading of civil benefits," 10 cents will go for interest charges on the public debt, 4 cents will go for "keeping the civil functions of Government running."

The largest item of expenditure in the budget, major national security (defense), amounting to $40,460,000,000, includes $3,675,000,000 for military assistance and direct forces support. This latter amount is about one-eighth more than that for fiscal 1955. Also included in the total for major national security programs is $2,000,000,000 for the development of atomic energy, which is about 2½ percent less than that for fiscal 1955.

International affairs and finance, for which $1,320,000,000 is budgeted, provides $1,101,000,000 for economic and technical development, compared with a maximum of $6,413,000,000 in 1947.

The amount asked for public assistance makes up about three-fifths of the total required for welfare, health, and education, and is slightly less than that budgeted for fiscal 1955.

The larger items under commerce and manpower, for which $2,190,000,000 is budgeted, are (1) promotion of merchant marine, (2) provision of navigation aids and facilities, (3) provision of highways, (4) promotion of aviation, (5) public housing programs, (6) promotion of defense production and economic stabilization, (7) unemployment compensation and placement activities. The amounts budgeted in 1956 are larger than those budgeted in 1955 for each of these items except the amounts for promotion of merchant marine and public housing.

A distinguishing feature of this year's budget message is the programs sponsored in ways that keep expenditures for them out of the budget. These programs include (1) the President's Federal-State highway program, (2) plans for the expansion of TVA, (3) a plan for Government guarantees of private loans for the construction of hospitals, and (4) an increase in the total amount of home mortgage loans which the F. H. A. is authorized to insure.

This year the President is asking for $58,643,000,000 in new obligational authority, about $1,300,000,000 more than that asked for last year. New obligational authority enacted last year was about $1,000,000,000 less than that recommended in last year's budget. In discussing his request for new obligational authority, the President noted that unexpended balances of prior year authorizations "are now on their way down to more reasonable levels." As these balances decrease, the spread between new obligational authority and the total budget expenditures can be expected to narrow.

The Cash Budget

On the basis of the flow of all payments into and out of the Treasury, that is, on the basis of the cash budget, receipts and expenditures for fiscal 1956 are estimated at $68,793,000,000 and $68,235,000,000, respectively. If these receipts and expenditures are realized, the Treasury should have a cash surplus of $558,000,000 in fiscal 1956. Such a "surplus," however, would not be free, in that it would constitute part of certain trust or obligated funds.

The Budget and the Debt Limit

Concerning the legal debt limit the President wrote, "we anticipate that the heavy tax receipts during the remainder of this fiscal year will enable us to reduce the debt to within that figure [the $275,000,000,000 debt limit] by June 30, 1955." However, because of the concentration of tax receipts in the second half of each fiscal year he expects "that expenditures will exceed receipts in the first six months of the fiscal year 1956 by about 8 billion dollars." On the basis of this forecast the President wrote, "I have no alternative but to ask the Congress to again increase the debt limit."

Conclusion

Although the administrative budget projects a deficit of $2,410,000,000 for fiscal 1956, the cash budget, which reflects more directly the inflationary or deflationary effect of the Government's taxing and spending programs, indicates that the Treasury will have a cash surplus of about $558,000,000,000 for the year ending June 30, 1956. This estimate, against the background of the administrative budget submitted by the President for fiscal 1956 suggests that the Government taxing and spending activities during fiscal 1956 will have little net inflationary or deflationary effect.

Notes on the Budget and the Budget Process

"The Budget of the United States is the financial expression of the President's program for the Government during the ensuing fiscal year—the year beginning July 1 and ending June 30."[2] The budget is transmitted to the Congress by the President pursuant to the Budget and Accounting Act of 1921, and modifications thereof, within 15 days after the convening of Congress. The budget document itself is large. That for fiscal 1955 comprising 1288 pages, weighed about 5½ pounds, and was accompanied by a 500-page appendix, itself weighing about 2½ pounds. The importance of the present-day budget is evident in the fact that it is a plan for the use and disposition of about one-sixth of the goods and services produced by the economy during the budget year.

In addition to being a plan of expenditures, the budget is also an estimate of the amount of money that will be received by the Government during the budget year. The budget, as generally considered, is an administrative budget in contradistinction to a cash budget. The administrative budget is a plan for receipts and expenditures for only those funds that belong to the Government; such a budget excludes the amount of funds that the Government handles in the capacity of a trustee. Notable among such funds are those for social security. The cash budget, which is contained in the budget document, includes all funds handled by the Treasury, and by including all such funds this budget provides a better appraisal of the overall impact on the economy of Treasury operations. These total operations determine changes in the Treasury's cash position, and such changes

[2]"The Federal Budget in Brief," Fiscal Year 1955, Executive Office of the President, Bureau of the Budget, p. 2. This summary explanation of the budget is available at a price of 40 cents through the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.

are immediately and directly reflected in the Harwood Index of Inflation.

The Budget Process

The budget process involves (1) preparation in the executive branch, (2) congressional action, (3) expenditures by the executive branch. Preparation begins at hundreds of points in the lower echelons of the Government a year or more in advance of the budget year. Data thus prepared are compiled into departmental or agency budgets as the data pass through successively higher levels of administration. In their development and progress through the various Government departments and agencies these data are reviewed and influenced by the Bureau of the Budget. After becoming integrated into departmental or agency budgets, their summary totals are reviewed and modified by the Bureau as it guides and helps to shape the several divisional budgets into the summary budget that is presented the President for his modification, approval, and transmission to Congress.

Congressional action on the budget involves approval, modification, or rejection of any of the parts of the budget. Congress gives effect to the budget through *new obligational authority*—"the total amount of budget authorizations to incur obligations granted by the Congress to the Federal agencies for a given year, usually in the form of appropriations. This is the initial action which must precede all budget expenditures. New obligational authority includes a few reauthorizations, by means of which unused portions of prior year authorizations are continued after they would otherwise expire."[3]

Every activity for which the Government spends is in principle, at least, considered by Congress twice. First, only activities authorized by Congress may be undertaken. Second, no expenditure may be made for an activity until the necesesary funds have been appropriated by Congress. However, authorized activities of permanent Government agencies and departments are outlined in broad language, with the result that the specific activities of these agencies may change considerably over the years. The effect of this situation is to nullify to some extent the effectiveness of this dual review of budget items by the Congress. In some instances, as, for example, veterans' pensions, where the obligation has been fixed in previous legislation the power of Congress to fix appropriations is nominal. In practice the appropriations of Congress are largely controlled by appropriation committees.

It is the responsibility of the executive branch of the Government, through its departments and agencies, to carry out the budget as it is implemented through new obligational authority. Carrying out of the budget involves incurring obligations and budget expenditures. *Obligations* are "actions taken by the agencies within their available obligational authority to buy goods and procure services, requiring in due time the payment of money (expenditures). Obligations may be in the form of orders placed, contracts awarded, personal and contractual services ordered, and similar transactions."[4] *Budget expenditures* are, with a few exceptions, "checks issued under budget authorizations, granted either in the current year or in previous years. The usual procedure is that obligations are incurred under new obligational authority. Obligations are then liquidated by expenditures which sometimes take place within a few weeks and sometimes occur as much as 3 or even more years after an obligation has been incurred." Such expenditures "exclude spending of funds held in trust."[5] All obligations are not liquidated by expenditures in the year in which they are incurred. Therefore, each year there are *unexpended balances of prior year authorizations.* These balances are "the unexpended portions of prior year authorizations, largely obligated, which are brought forward and are currently available for expenditure. They are commitments for which actual funds were not provided in prior years and which must be met as expenditures in the current or future years."[6] Because of this lag between certain authorizations and payment of the obligations incurred thereunder, the budget of any one year must include a sufficient amount of *reauthorizations* to permit payment for obligations incurred in previous years.

Although the executive branch of the Government has its own procedures to assure the legality of all expenditures, all expenditures are subject to audit by the General Accounting Office to see that the payment is for an activity which Congress has authorized and for which it has granted obligational authority. The General Accounting Office is independent of the executive branch and responsible only to the Congress.

What the Indicators Say

The latest data for the Statistical Indicators reveal that:

1. Business failure liabilities increased slightly more than seasonally in December.
2. Average weekly hours per worker in all manufacturing industries, seasonally adjusted, increased about one-half hour in November.
3. Wholesale prices, excluding farm products and foods, increased slightly in December.
4. Bank debits outside New York City increased about 2 percent more than seasonally in December.
5. Industrial production increased slightly more than seasonally in December.

The *Iron Age* weekly composite price of No. 1 heavy melting steel scrap for the week ended January 11 increased 16 cents to $34.33, but a decrease of $2 per ton was reported in the Pittsburgh area on January 19.

The slightly more than seasonal increase in business failure liabilities is not believed to be significant in the light of the continued favorable trends of the other indicators reported on.

SUPPLY

Industrial Production

Steel-ingot production of 1,989,000 tons during the week ended January 22, as indicated by operations scheduled at 82.4 percent of capacity, compares with 2,007,000 tons during the preceding week and 1,760,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 142.6 for the week ended January 8, compared with 129.3 a week earlier and 124.0 for the corresponding week last year.

[3] *Ibid.* p. 62.
[4] *Ibid.*
[5] Ibid.
[6] *Ibid.*

Electric-power production of 9,928,000,000 kilowatt-hours during the week ended January 15 compares with 9,833,000,000 kilowatt-hours for the previous week and 9,010,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 184,300 vehicles for the week ended January 15, compares with a total of 177,900 for the previous week and 149,600 for the corresponding week last year.

These data compare with those for corresponding weeks of earlier years as follows:

	1929	1932	1948	1949	1954	1955
Steel						
Operating rate—percent cap.	83	28	96	100	74	82*p*
Ingot prodn.—million tons	1.15	.43	1.73	1.84	1.76	1.99
Lumber						
New York Times Index	132	39	114	78	124	143
Electric Power						
Kilowatt-hours—billions	1.73	1.60	5.37	5.73	9.01	9.93
Automobiles						
Vehicles—thousands	96	32	109	113	150	184*p*

p Preliminary

DEMAND

Retail Sales

According to preliminary data, total sales of the Nation's retail outlets were, by a slight margin, the largest in history during 1954. Although the indicated gain over that of the previous record year is negligible, the record is the more significant because of the lag earlier in the year in sales compared with those of the corresponding period of 1953. Moreover, at the midyear store operators generally were not expecting 1954 sales to equal those of 1953. Even as late as the end of October 1954 retail sales for the year to date were nearly 1½ percent less than those of the corresponding period of 1953. However, in the third week in October sales began increasing more than seasonally, and this upward trend continued throughout the remainder of the year.

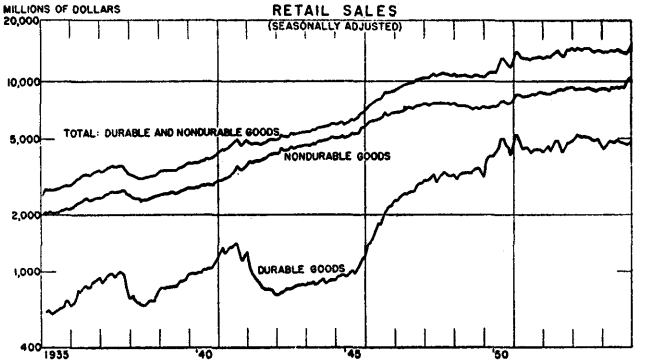
The impetus given to other segments of the economy by the automobile industry in late 1954 had its impact on retail sales, especially in December. Although retail sales of automobiles, of which new passenger-car sales are 95 percent, were 5 percent fewer in 1954 than those of 1953, automobile sales increased nearly 26 percent in December 1954 compared with December 1953.

The accompanying table shows the percentage change in retail sales in 1954 as compared with 1953, by type of outlet. The table indicates that sales of nondurable goods increased 2 percent, but sales of durable goods decreased 4 percent. Of the several types of outlets under which sales are reported, sales of gasoline service outlets stand out for their increase of 9 percent. The next largest increase, 4 percent, was recorded by drug outlets.

Sales of department stores, which are included in sales of the general merchandise group, increased 4 percent for December but decreased 1 percent for the year 1954.

Available data for sales of chain food stores indicate somewhat larger sales than those of independents. In other lines, especially those classified under General Merchandise, which includes variety stores, mail-order houses, and apparel stores, the year's sales trends of the chains parallel closely those of all stores.

Retail sales in the first half of 1955 are expected to equal or exceed the 1953 level. This would mean an increase of about 3 percent as compared with those for the first half of 1954.



PERCENTAGE CHANGE IN RETAIL SALES BY TYPE OF GOODS AND OUTLET
1954 vs 1953

Classification	*Percent*
All types	*
Durable goods	−4
Automotive	−5
Furniture and household appliances	*
Lumber, building materials, and hardware	−4
Nondurable	+2
Food	+2
Eating and drinking	+1
General merchandise	−1
Apparel	−1
Gasoline service	+9
Drug	+4

*Change of less than ½ percent.

Mail-Order and Chain-Store Sales

Sales of 40 reporting mail-order and chain-store companies during December were 5.6 percent more than sales in December 1953 and 0.3 percent more for year 1954 than sales for the year 1953. Data compiled by *The New York Times.*

PERCENTAGE CHANGE IN TOTAL SALES

Type of Outlet	*December 1954 vs. December 1953*	*Year 1954 vs. Year 1953*
Mail Order	+ 2	−5
Variety	+ 4	+1
Grocery	+14	+7
General Merchandise	+ 5	0
Apparel	+ 9	+2
Shoe	+ 7	+1
Drug	+ 7	+3
Automotive Variety	− 1	−7
Men's Wear	+ 8	−3
40 Reporting Stores	+ 6	0

Department-Store Sales

Sales of 325 reporting department stores compare with those of corresponding periods a year ago as follows:

Period	*Percent Change*
Week ended January 15, 1955	+16
Four weeks ended January 15, 1955	+12

PRICES

Commodities at Wholesale

	1954	*1955*	
Index	*Jan. 19*	*Jan. 12*	*Jan. 19*
Spot-market, 22 commodities	269	278	279
Commodity futures	355	358	358

Note: The indexes are respectively those of the United States Bureau of Labor Statistics and Dow Jones. Both indexes are converted so that their August 1939 daily averages equal 100.