

## A

# The Federal Sector of the National Income and Product Accounts

**T**he federal budget is not the only mechanism for gauging the effect on the economy of the federal government's revenues and spending. That effect is also measured in the official national income and product accounts (NIPAs) produced by the Department of Commerce's Bureau of Economic Analysis (BEA).<sup>1</sup> The NIPAs provide a picture of government activity in terms of production, distribution, and use of output. They recast the government's transactions into categories that affect gross domestic product (GDP), income, and other macroeconomic totals, thereby helping to show the relationship between the federal sector and other areas of the economy. Although the categories of classification in the federal budget and the NIPAs differ significantly, the totals of the two measures are comparable. NIPA receipts and expenditures over the 2003-2012 period exceed the corresponding budget figures by roughly 1 percent.

## Relationship Between the Budget and the NIPAs

A number of major differences distinguish how federal receipts and expenditures are treated in the NIPAs from

how they are accounted for in the total (or unified) budget (see *Table A-1*). For example, the NIPAs shift certain items from the spending to the receipts side of the ledger to reflect intrabudgetary or voluntary payments that the budget records as negative outlays. Such shifts are referred to as *netting and grossing adjustments* and do not affect the surplus or deficit.

In contrast, other differences between the two accounting methodologies affect the surplus or deficit that each reports. The NIPA totals (but not the budget's) exclude government transactions that involve an exchange of existing assets and that therefore do not add to or subtract from current income and production. Prominent among such *lending and financial adjustments* (as they are termed in *Table A-1*) are those for deposit insurance outlays, cash flows for direct loans made by the government before credit reform, and sales of government assets. Other factors that separate the NIPAs' accounting from that of the budget include *geographic adjustments* (the NIPAs exclude Puerto Rico, the Virgin Islands, and a few other areas) and *timing adjustments* (the NIPAs correct for such things as irregular numbers of benefit checks in a year or shifts in the timing of corporate tax payments).

In the national economic accounts, contributions for *government employee retirement* are considered the personal income of federal workers covered by the retirement funds and therefore are not counted in the federal sector of the NIPAs. As a result, outlays from the funds

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1. On July 31, 2002, BEA released new figures reflecting its comprehensive revision of the NIPAs. The Congressional Budget Office was able to update its historical data to include those revisions; however, because BEA had not yet provided detail on the changes before this report went to press, CBO has not adjusted its methodology for translating the federal budget into NIPA terms.

**Table A-1.**

## Relationship of the Budget to the Federal Sector of the National Income and Product Accounts

(In billions of dollars)

	Actual											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Receipts</b>												
Revenues (Budget) <sup>a</sup>	1,991	1,860	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521
Differences												
Netting and grossing adjustments												
Medicare premiums	24	26	28	30	32	35	38	42	46	50	54	58
Deposit insurance premiums	*	*	*	1	1	1	1	1	2	2	2	2
Government contributions for employee OASDI and HI	11	12	13	14	15	16	17	18	19	20	21	22
Other	11	10	8	7	7	6	5	4	3	2	*	-1
Geographic adjustments	-4	-4	-4	-4	-4	-5	-5	-5	-5	-5	-6	-6
Government employee retirement	-5	-4	-4	-4	-4	-4	-4	-4	-4	-4	-3	-3
Estate and gift taxes	-28	-26	-23	-24	-21	-24	-20	-21	-23	-14	-14	-41
Universal Service Fund receipts	-5	-5	-6	-6	-6	-6	-7	-7	-7	-7	-7	-7
Timing shift of corporate estimated tax payments	23	-23	0	7	-7	0	0	0	0	0	0	0
Other	<u>6</u>	<u>56</u>	<u>-10</u>	<u>-1</u>	<u>-3</u>	<u>*</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>4</u>	<u>2</u>
<b>Total Difference</b>	<b>33</b>	<b>41</b>	<b>2</b>	<b>18</b>	<b>9</b>	<b>18</b>	<b>29</b>	<b>32</b>	<b>34</b>	<b>47</b>	<b>50</b>	<b>25</b>
Receipts (NIPAs)	2,024	1,901	1,965	2,101	2,253	2,400	2,543	2,690	2,843	3,012	3,293	3,546
<b>Expenditures</b>												
Outlays (Budget) <sup>a</sup>	1,864	2,017	2,107	2,195	2,283	2,366	2,461	2,569	2,676	2,788	2,920	2,999
Differences												
Netting and grossing adjustments												
Medicare premiums	24	26	28	30	32	35	38	42	46	50	54	58
Deposit insurance premiums	*	*	*	1	1	1	1	1	2	2	2	2
Government contributions for employee OASDI and HI	11	12	13	14	15	16	17	18	19	20	21	22
Other	11	10	8	7	7	6	5	4	3	2	*	-1
Lending and financial adjustments	14	9	9	9	20	18	10	8	7	7	7	7
Geographic adjustments	-11	-12	-13	-14	-14	-15	-15	-16	-17	-18	-19	-19
Timing adjustments	7	7	2	0	-12	3	9	0	0	0	-15	15
Government employee retirement	34	39	39	40	42	44	45	47	48	50	52	54
Intragovernmental transfers	-1	-6	-5	-5	-6	-5	-4	-2	-1	1	3	4
Capital transfers	-40	-44	-47	-49	-50	-52	-53	-54	-55	-56	-57	-58
Treatment of investment and depreciation	-6	-10	-9	-12	-15	-18	-21	-24	-27	-30	-34	-37
Universal Service Fund payments	-5	-5	-6	-6	-6	-6	-6	-7	-7	-7	-7	-7
Other	<u>7</u>	<u>-2</u>	<u>-2</u>	<u>-2</u>	<u>-1</u>							
<b>Total Difference</b>	<b>45</b>	<b>23</b>	<b>18</b>	<b>14</b>	<b>12</b>	<b>25</b>	<b>25</b>	<b>16</b>	<b>18</b>	<b>20</b>	<b>6</b>	<b>39</b>
Expenditures (NIPAs)	1,909	2,039	2,126	2,209	2,295	2,391	2,486	2,586	2,693	2,807	2,926	3,038

(Continued)

**Table A-1.**  
**Continued**

(In billions of dollars)												
	Actual 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	<b>Surplus</b>											
Surplus (Budget) <sup>a</sup>	127	-157	-145	-111	-39	15	52	88	133	177	323	522
Differences												
Lending and financial adjustments	-14	-9	-9	-9	-20	-18	-10	-8	-7	-7	-7	-7
Geographic adjustments	7	9	9	9	10	10	11	11	12	12	13	13
Timing adjustments	16	-30	-2	7	5	-3	-9	0	0	0	15	-15
Government employee retirement	-38	-43	-44	-45	-46	-48	-49	-51	-52	-54	-56	-58
Estate and gift taxes	-28	-26	-23	-24	-21	-24	-20	-21	-23	-14	-14	-41
Intragovernmental transfers	1	6	5	5	6	5	4	2	1	-1	-3	-4
Capital transfers	40	44	47	49	50	52	53	54	55	56	57	58
Treatment of investment and depreciation	6	10	9	12	15	18	21	24	27	30	34	37
Universal Service Fund payments	*	*	*	*	*	*	*	*	*	*	*	*
Other	<u>-1</u>	<u>58</u>	<u>-8</u>	<u>1</u>	<u>-1</u>	<u>1</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>5</u>	<u>5</u>	<u>3</u>
<b>Total Difference</b>	<b>-12</b>	<b>19</b>	<b>-16</b>	<b>4</b>	<b>-3</b>	<b>-7</b>	<b>4</b>	<b>16</b>	<b>17</b>	<b>27</b>	<b>44</b>	<b>-14</b>
Surplus (NIPAs)	115	-138	-161	-108	-42	9	56	104	150	204	367	508

Source: Congressional Budget Office.

Notes: \* = between -\$500 million and \$500 million.

OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service.

are also treated as transactions outside the government sector of the economy. In the budget, those contributions are classified as government receipts.

*Intragovernmental transfers* are an adjustment made to the NIPA totals to account for payments that the government makes to federal entities whose activities are not counted as part of the budget. Nearly all such transfers involve the financing of credit programs.

The government's *capital transfers*—which include grants to state and local governments for highways, transit, air transportation, and water treatment plants—are transactions in which one party provides something (usually cash) to another without receiving anything in return. Those transactions are linked to, or are conditional on, the acquiring or disposing of an asset. Because such transactions shift existing assets from one party to

another, they do not affect disposable income or production. Therefore, they are not counted in the NIPAs.

The NIPAs and the budget also differ in their *treatment of investment and depreciation*. The budget reflects all expenditures that the federal government makes, including its investment purchases of items such as buildings and aircraft carriers. The NIPAs show the current, or operating, account for the federal government; thus, they exclude government investment and include the government's consumption of fixed capital, or depreciation. (Government investment, although included in the NIPAs' calculation of GDP, is not part of its measure of federal expenditures.)

The Universal Service Fund, which is administered by a nonprofit entity, receives funds from providers of telecommunications services and disburses those funds to

providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. As a result, the fund's receipts and payments are classified in the NIPAs as intracorporate transfers and do not show up in the national economic statistics.

The *other* category for receipts includes a number of measurement factors that are generally small. For fiscal year 2002, however, that category is unusually large. One contributing factor is the treatment of the final settlement of income taxes (payments for the balance of taxes due and refunds of overpayments, generally made between February and May). The budget records settlements in the fiscal year in which they are paid. But the NIPAs spread those receipts evenly over the four quarters of the calendar year in which they are paid, which moves some receipts into the last quarter of the calendar year and thus into the subsequent fiscal year. As a result, NIPA receipts decrease by less than budget receipts do when there is a significant drop in final settlements, as there was in fiscal year 2002 (see the discussion in Chapter 1).

## NIPA Receipts and Expenditures

The federal sector of the NIPAs generally classifies receipts according to their source (*see Table A-2*). Taxes and fees paid by individuals are the leading source of the government's receipts in the 2002-2012 period. The next category in terms of size is contributions (including premiums) for social insurance programs—a category that includes Social Security taxes, Medicare taxes and premiums, unemployment insurance taxes, and federal employees' retirement contributions. The remaining categories of receipts are accruals of taxes on corporate profits, including the earnings of the Federal Reserve System, and indirect business tax and nontax accruals. (Examples of indirect business taxes are customs duties and excise taxes. Nontax accruals include deposit insurance premiums.)

The government's expenditures are classified according to their purpose and destination. Defense and nondefense consumption of goods and services represents purchases made by the government for its immediate use. (The largest share of current defense and nondefense consumption is the compensation of federal employees.) The consumption of fixed capital is the use that the

government receives from its fixed assets, such as buildings or equipment; as noted earlier, that consumption appears in the accounts as depreciation.

Transfer payments are cash payments made directly to individuals, private entities, or foreign nations. Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as paying Medicaid benefits) and consumption (such as hiring additional police officers).

Although both the total budget and the NIPAs contain a category labeled "net interest," the NIPAs' figure is larger. Various differences cause the two measures to diverge. The biggest difference is the contrasting treatment of the interest received by the Civil Service and Military Retirement Trust Funds. In the total budget, such receipts offset the payments made to those funds by the Treasury. In the NIPAs, however, those receipts are reclassified as contributions to personal income and do not appear on the ledger detailing the government's transactions.

The category in the NIPAs labeled "subsidies less current surplus of government enterprises" contains two components, as its name suggests. The first—subsidies—is defined as monetary grants paid by the federal government to businesses, including state and local government enterprises. Subsidies are dominated by housing assistance.

The second part of the category is the current surplus of government enterprises, which are certain business-type operations of the government, such as the Postal Service. The operating costs of a government enterprise are mostly covered by the sale of goods and services to the public rather than by tax receipts. The difference between sales and current operating expenses is the enterprise's surplus or deficit. *Government enterprises* should not be confused with *government-sponsored enterprises*, or GSEs, which are private entities established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency. Examples of GSEs include Fannie Mae and the Farm Credit System. As privately owned, though publicly chartered, corporations, GSEs are not included in the budget or in the federal sector of the NIPAs.

**Table A-2.**

## Projections of Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts

(In billions of dollars)

	Actual											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Receipts</b>												
Personal Tax and Nontax Receipts	1,013	908	920	983	1,048	1,111	1,184	1,266	1,356	1,454	1,658	1,833
Contributions for Social Insurance <sup>a</sup>	713	733	775	819	864	912	960	1,009	1,058	1,114	1,172	1,233
Corporate Profits Tax Accruals	187	152	165	191	229	262	280	292	303	314	329	343
Indirect Business Tax and Nontax Accruals	<u>111</u>	<u>108</u>	<u>106</u>	<u>108</u>	<u>112</u>	<u>115</u>	<u>119</u>	<u>123</u>	<u>126</u>	<u>130</u>	<u>133</u>	<u>137</u>
<b>Total</b>	<b>2,024</b>	<b>1,901</b>	<b>1,965</b>	<b>2,101</b>	<b>2,253</b>	<b>2,400</b>	<b>2,543</b>	<b>2,690</b>	<b>2,843</b>	<b>3,012</b>	<b>3,293</b>	<b>3,546</b>
<b>Expenditures</b>												
Purchases of Goods and Services												
Defense												
Consumption	273	314	331	337	344	352	360	370	380	390	400	411
Consumption of fixed capital	64	64	65	65	66	67	67	68	68	69	70	70
Nondefense												
Consumption	152	163	179	182	184	187	191	195	199	203	208	212
Consumption of fixed capital	<u>28</u>	<u>30</u>	<u>32</u>	<u>34</u>	<u>35</u>	<u>37</u>	<u>39</u>	<u>42</u>	<u>44</u>	<u>46</u>	<u>48</u>	<u>51</u>
Subtotal	517	572	607	617	629	643	658	674	690	708	726	744
Transfer Payments												
Domestic	813	895	928	954	991	1,046	1,102	1,164	1,231	1,305	1,384	1,460
Foreign	<u>12</u>	<u>13</u>	<u>12</u>	<u>12</u>								
Subtotal	825	908	940	967	1,004	1,059	1,115	1,177	1,244	1,318	1,396	1,472
Grants-in-Aid to State and Local Governments	269	299	319	337	356	375	397	419	443	470	499	531
Net Interest	248	213	209	238	258	265	267	267	265	260	252	237
Subsidies Less Current Surplus of Government Enterprises	<u>50</u>	<u>47</u>	<u>50</u>	<u>49</u>	<u>48</u>	<u>49</u>	<u>50</u>	<u>49</u>	<u>50</u>	<u>51</u>	<u>52</u>	<u>54</u>
<b>Total</b>	<b>1,909</b>	<b>2,039</b>	<b>2,126</b>	<b>2,209</b>	<b>2,295</b>	<b>2,391</b>	<b>2,486</b>	<b>2,586</b>	<b>2,693</b>	<b>2,807</b>	<b>2,926</b>	<b>3,038</b>
<b>Surplus</b>												
Surplus	115	-138	-161	-108	-42	9	56	104	150	204	367	508

Source: Congressional Budget Office.

a. Includes Social Security taxes, Medicare taxes and premiums, unemployment insurance taxes, and federal employees' retirement contributions.