Congressional Budget Office

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CBO's Projections of Federal Receipts and Expenditures in the National Income and Product Accounts

The fiscal transactions of the federal government are recorded in two major sets of accounts. One is *The Budget of the United States Government,* prepared by the Office of Management and Budget, which is the framework generally used by executive branch agencies and the Congress and commonly discussed in the press. It focuses on cash flows—the inflow of revenues (funds generated from taxes and fees) and the outflow of spending (cash disbursed for the various federal functions). The main objectives of the budget are to provide information that can assist lawmakers in their policy deliberations, to facilitate the management and control of federal activities, and to help the Treasury manage its cash balances and determine its borrowing needs.

The second major set of accounts is the national income and product accounts (NIPAs), which are produced by the Department of Commerce's Bureau of Economic Analysis (BEA). Like the budget, the NIPAs record the federal government's fiscal transactions, but they have different objectives in doing so. The NIPAs are intended to provide a comprehensive accounting of activity in the U.S. economy, and as such, they are used extensively in macroeconomic analysis. Specifically, they measure current production (the process by which goods and services are provided for use) and the income generated by that production. A well-known measure of overall production in the NIPAs is gross domestic product (GDP). The accounts divide the economy into four major sectors—business, government, household, and the "rest of the world" (that is, the foreign sector)—each with its own set of accounts.[1] This report focuses on the federal sector, which is one component of the government sector.[2] Because the aims of the NIPAs differ from those of the federal budget, the two accounting systems treat some government transactions very differently.

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

The budget of the federal government is best understood as an information and management tool. It focuses primarily on cash flows, recording revenues and spending

1. Some accounts in the NIPAs—such as the domestic capital account, which shows saving and investment—focus on components of GDP or income rather than on a specific sector. Those accounts bring together relevant information from all four sectors.

2. For information on the NIPAs generally, see www.bea.gov/national/index.htm. For other discussions of the federal sector in the NIPAs, see Bureau of Economic Analysis, "NIPA Translation of the Fiscal Year 2013 Federal Budget" (March 2012), http://go.usa.gov/Trne (pdf, 482 KB), and "A Primer on Government Accounts," *Survey of Current Business* (March 2012 and March 2008), www.bea.gov/scb/toc/0308cont.htm; and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014: Analytical Perspectives* (May 2013), http://go.usa.gov/TDNQ. The state and local sector is the other component of the government sector. More formally, BEA regards the federal government and state and local governments as subsectors. The treatment of state and local governments' transactions in the NIPAs closely resembles the treatment of the federal government's transactions.

Note: Numbers in the text and tables may not add up to totals because of rounding.

over a given period. The main period of interest in the budget is the federal fiscal year, which runs from October 1 through September 30. Although the budget generally records transactions on a cash basis, a few exceptions exist that are designed to improve the budget's usefulness as a decisionmaking tool. For example, when the federal government makes direct loans or provides loan guarantees, tracking cash flows gives a misleading view of true costs. Therefore, under what is termed credit reform, the budget records the estimated subsidy costs at the time the loans are made; such estimates are often revised later in response to movements in interest rates and other developments.[3]

The federal sector in the NIPAs reflects none of the planning and management goals that underlie the budget. Instead, it illustrates how the federal government fits into a general economic framework, detailing current production and income over specific periods, the major sources of that production, and recipients of income resulting from output. The NIPAs primarily deal with calendar years and calendar quarters, but approximate totals for fiscal years can be derived from the quarterly estimates.[4] (The tables in this report show fiscal year numbers.)

From the perspective of the NIPAs, the federal government is both a producer and a consumer. Its workforce uses purchased goods and services and government-owned capital (buildings, equipment, and software) to produce services for the public at large. Because those services are consumed by the public, that consumption, by convention, is regarded as a federal expenditure in the NIPAs. In addition, through its taxes and transfers, the federal government affects the resources available to the private sector. The purpose of the NIPAs is to record all of those activities in a manner consistent with the treatment accorded to other sectors of the economy.

The federal sector in the NIPAs tracks how much the government spends on the consumption of goods and services. It also records the transfer of resources that occurs through taxation, payments to the beneficiaries of federal programs, and federal interest payments. The table in the accounts that most closely resembles the presentation in the federal budget is Table 3.2, "Federal Government Current Receipts and Expenditures." The federal sector's contribution to GDP is presented elsewhere in the NIPAs, in Table 1.1.5.

Differences in Recording Major Transactions

The conceptual differences that distinguish the NIPAs from the federal budget lead to accounting differences as well. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about how best to treat transactions such as government investment, the sale and purchase of existing assets, federal credit programs, and federal activities that resemble those of businesses, as well as transactions involving U.S. territories. In some cases, the NIPAs move a transaction from the federal sector to another sector of the accounts or exclude the transaction from the accounts entirely. In other cases, the NIPAs record as a federal receipt an item that the federal budget reports as an offsetting (negative) outlay or adjust the timing of a federal transaction to better match the timing of the related production or income flow.[5] The differences between the Congressional Budget Office's (CBO's) February 2013 baseline budget projections and its corresponding estimates for the federal sector in the NIPAs are detailed in Table 1.[6]

3. The credit-reform approach to accounting for loans and loan guarantees was adopted in the Federal Credit Reform Act of 1990. Under credit reform, budgeting and accounting for federal credit activities focus on the cost of the subsidies conveyed in federal credit assistance. That cost is calculated on a net-present-value basis, using interest rates on Treasury securities with similar terms to maturity as the discount rates, and excludes federal administrative costs and any incidental effects on revenues or outlays. For direct loans, the subsidy cost is the net present value of loan disbursements minus repayments of interest and principal, adjusted for estimated defaults (net of recoveries), prepayments, fees, and penalties. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries.

4. The averaging of the four quarters of the fiscal year is not a precise estimate of the fiscal year total because the quarterly data are seasonally adjusted, and seasonal adjustments average to zero only within calendar years.

5. The resulting differences between the numbers reported in the NIPAs and the budget are sometimes divided into three groups: coverage differences, timing differences, and netting differences. Although all three types can affect total revenues or outlays, netting differences have no impact on the federal deficit or surplus because they affect revenues and outlays equally.

6. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (February 2013), www.cbo.gov/publication/43907.

The Measurement of National Saving

The NIPAs make three major departures from the federal budget to better measure the federal government's contribution to national saving, termed net federal government saving (current receipts minus current expenditures). Those departures are the treatment of spending for federal investment (for things such as ships, computers, and office buildings), of spending for federal employees' retirement programs, and of purchases or in-kind exchanges of assets, known as capital transfers. As a result, the concept of net federal saving (or "dissaving") in the NIPAs is akin to, but not the same as, the federal budget surplus (or deficit).

Federal Investment

In the federal budget, outlays for investment are like other cash outlays; thus, to determine the size of the federal deficit or surplus, they are subtracted from budget revenues. In the NIPAs, by contrast, federal investment is not counted as a current expenditure—and therefore does not affect net federal government saving—because new purchases of federal capital (investments) do not measure the current capital inputs used to produce government services.[7] To approximate the cost of those capital inputs, the NIPAs include in current federal expenditures an estimate of the depreciation (consumption) of the government's stock of fixed capital. The treatment is conceptually similar to that applied to the corporate business sector, which uses depreciation rather than investment purchases to compute net corporate saving (retained earnings). In the federal budget, depreciation is not tracked. That difference in coverage is shown in Table 1 under "Expenditures" in the row labeled "Treatment of investment and depreciation."

Federal Retirement

Transactions involving federal employees' retirement programs are also handled differently in the budget than in the NIPAs. Federal employees' contributions to their retirement accounts are recorded in the budget as revenues. However, agencies' contributions on behalf of their employees (as well as interest payments from the Treasury to the retirement trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.[8] When benefits are paid to federal retirees, they are recorded in the budget as outlays.

In the NIPAs, by contrast, the aim is to make the measurement of saving by the federal government consistent with the measurement of saving by the private sector. Therefore, the NIPAs treat some transactions related to federal retirement plans as part of the household sector of the economy. The receipts from agencies' retirement contributions (and the interest earned by retirement accounts) are considered part of workers' personal income and thus are not recorded as federal transactions (receipts or negative expenditures). Employees' contributions are not recorded as income in either the federal or the household sector but are considered transfers within the household sector.[9]

On the outlay side, payments of pension benefits to retirees are not recorded as federal expenditures in the NIPAs because they are treated as transfers from pension funds within the household sector. Some transactions, however, are treated as part of federal expenditures—specifically, agencies' contributions to their employees' retirement accounts (as part of employees' compensation) and the interest paid to federal retirement accounts. The different treatment of retirement contributions by federal employees is shown in the top section of Table 1 under "Receipts"; the different treatment of agencies' contributions, interest earnings, and benefit payments is shown below that, under "Expenditures."

Capital Transfers

Transactions that involve existing assets do not directly affect current production or income from that production. Therefore, the NIPAs do not count capital transfers

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

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

9. Some transactions related to other federal retirement plans are treated differently. For example, transactions of the National Railroad Retirement Investment Trust are part of the federal sector in the NIPAs. In addition, Social Security contributions and benefit payments for private and government employees alike are recorded in the federal sector as receipts and expenditures rather than moved to the household sector.

Table 1.

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

(Billions of dollars)

	Actual, 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
						Receipts						
Revenues (Budget)	2,450	2,708	3,003	3,373	3,591	3,765	3,937	4,101	4,279	4,496	4,734	4,961
Differences												
Coverage												
Adjustments related to government employees' retirement	-4	-4	-4	-4	-4	-4	-4	-4	-5	-5	-5	-6
Estate and gift taxes	-14	-16	-15	-16	-17	-18	-19	-20	-21	-22	-24	-25
Universal Service Fund receipts	-10	-10	-10	-10	-10	-10	-11	-11	-11	-11	-11	-12
Subtotal, Coverage	-28	-29	-29	-29	-31	-32	-34	-35	-37	-39	-40	-42
Netting												
Medicare premiums	65	69	75	75	78	84	93	101	106	114	123	133
Deposit insurance premiums	13	12	11	11	12	13	14	22	20	12	12	13
Government contributions for OASDI and HI for employees	19	20	21	22	23	24	25	25	26	27	28	28
Income receipts on assets	46	41	36	37	37	37	37	40	38	39	38	38
Surpluses of government enterprises	-17	-17	-15	-15	-14	-14	-13	-12	-12	-11	-10	-10
Other	43	42	43	44	45	46	47	48	48	49	46	46
Subtotal, Netting	168	168	170	174	180	189	202	223	226	229	237	249
Other adjustments	43	1	-5	-1	1	1	-2	-4	-2	-2	*	*
Total Differences	**183**	**140**	**137**	**143**	**150**	**158**	**166**	**184**	**187**	**189**	**196**	**207**
Receipts in the NIPAs	2,633	2,848	3,139	3,516	3,741	3,923	4,103	4,285	4,467	4,684	4,931	5,168
						Expenditures						
Outlays (Budget)	3,537	3,553	3,618	3,803	4,067	4,300	4,542	4,811	5,078	5,350	5,691	5,939
Differences												
Coverage												
Treatment of investment and depreciation	-22	-21	-23	-25	-28	-32	-36	-40	-44	-48	-51	-55
Adjustments related to government employees' retirement	36	38	32	32	32	34	36	38	40	41	43	45
Capital transfers	-70	-72	-68	-69	-69	-69	-68	-69	-70	-71	-72	-73
Lending and financial adjustments	-3	21	8	10	13	12	7	7	7	7	6	6
Universal Service Fund payments	-9	-10	-10	-11	-11	-11	-11	-11	-11	-11	-11	-12
Subtotal, Coverage	-68	-43	-61	-62	-63	-66	-72	-75	-78	-81	-86	-89

Continued

Table 1. **Continued**

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

(Billions of dollars)

	Actual, 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Expenditures (Continued)							
Differences (Continued)												
Netting												
Medicare premiums	65	69	75	75	78	84	93	101	106	114	123	133
Deposit insurance premiums	13	12	11	11	12	13	14	22	20	12	12	13
Government contributions for OASDI and HI for employees	19	20	21	22	23	24	25	25	26	27	28	28
Income receipts on assets	46	41	36	37	37	37	37	40	38	39	38	38
Surpluses of government enterprises	-17	-17	-15	-15	-14	-14	-13	-12	-12	-11	-10	-10
Other	43	42	43	44	45	46	47	48	48	49	46	46
Subtotal, Netting	168	168	170	174	180	189	202	223	226	229	237	249
Timing adjustments	31	*	0	0	-37	-2	39	0	0	0	-47	-3
Other adjustments	76	91	82	90	89	82	80	77	84	92	99	100
Total Differences	**207**	**216**	**191**	**202**	**169**	**203**	**249**	**226**	**232**	**240**	**204**	**257**
Expenditures in the NIPAs	3,744	3,769	3,810	4,004	4,236	4,503	4,791	5,037	5,310	5,590	5,895	6,196
					Net Federal Government Saving[a]							
Budget Deficit	-1,087	-845	-616	-430	-476	-535	-605	-710	-798	-854	-957	-978
Differences												
Coverage												
Treatment of investment and depreciation	22	21	23	25	28	32	36	40	44	48	51	55
Adjustments related to government employees' retirement	-40	-42	-36	-36	-36	-37	-40	-42	-44	-46	-48	-50
Estate and gift taxes	-14	-16	-15	-16	-17	-18	-19	-20	-21	-22	-24	-25
Capital transfers	70	72	68	69	69	69	68	69	70	71	72	73
Lending and financial adjustments	3	-21	-8	-10	-13	-12	-7	-7	-7	-7	-6	-6
Universal Service Fund	-1	0	*	1	1	*	*	*	*	*	*	*
Subtotal, Coverage	41	14	32	33	32	34	38	39	41	43	45	47
Timing adjustments	-31	*	0	0	37	2	-39	0	0	0	47	3
Other adjustments	-33	-90	-87	-91	-88	-81	-82	-81	-86	-94	-99	-100
Total Differences	**-24**	**-76**	**-55**	**-58**	**-19**	**-45**	**-83**	**-42**	**-45**	**-52**	**-7**	**-50**
Net Federal Government Saving[a]	-1,111	-921	-670	-488	-495	-580	-687	-752	-844	-905	-964	-1,028

Source: Congressional Budget Office.

Note: OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance; * = between -$500 million and $500 million.

a. Negative numbers indicate that federal expenditures exceed federal receipts.

or asset exchanges as part of current federal receipts or expenditures, although the budget generally does include those transactions. From the perspective of the NIPAs, capital transfers include estate and gift taxes (which are taxes on private-capital transfers) and investment grants to state and local governments for such things as air transportation, highways, transit, and water treatment plants.[10] Exchanges of existing assets include federal transactions for deposit insurance and the sale and purchase of government assets (including assets that are not "produced," such as land and licenses to use the electromagnetic spectrum). In Table 1, those differences between the NIPAs' federal sector and the budget appear as "Estate and gift taxes" under "Receipts" and as "Capital transfers" and "Lending and financial adjustments" under "Expenditures."

Credit Programs

For federal programs that make or guarantee loans, only estimated subsidy costs and the programs' administrative costs are included as outlays in the budget. Cash flows from loan disbursements, repayments, and interest are reported in what are termed financing accounts, which have no effect on budget outlays.

As with the budget, the NIPAs record administrative costs and generally exclude loan disbursements, repayments, and other cash flows that are considered exchanges of existing assets or financial and lending transactions unrelated to current production. But unlike the budget, the NIPAs include the interest receipts from credit programs as part of federal receipts and do not record subsidy costs. In Table 1, those differences in the treatment of credit programs are recorded in two places: Under "Receipts," the difference in the treatment of loan interest is included as part of "Income receipts on assets"; under "Expenditures," the row labeled "Lending and financial adjustments" includes the differences in the way loan subsidies are handled.

Universal Service Fund

The business activity of the Universal Service Fund, which provides resources to promote access to telecommunications, is recorded in the budget but not in the NIPAs' federal sector. The Universal Service Fund receives federally required payments from providers of interstate and international telecommunications services and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. The fund is administered by the Universal Service Administrative Company, an independent nonprofit corporation regulated by the Federal Communications Commission.

Although the Universal Service Fund's revenues and outlays appear in the federal budget, they have little net effect on the deficit or surplus because, by the design of the activity, they have roughly equal magnitude. In the NIPAs, the fund's receipts and payments are classified as intracorporate transfers (from one business to another within the corporate sector).

Income Receipts on Assets

In the NIPAs, federal interest income is grouped with other types of federal receipts (in the category "Income receipts on assets"); by contrast, in the federal budget, only about half of that interest income (that which derives mainly from penalties on late tax payments) is recorded as revenues, and the rest is netted against federal interest payments and thereby reduces outlays. BEA's treatment is consistent with international accounting practices, in which interest receipts and payments are reported separately. The difference in how the NIPAs and the federal budget treat interest receipts increases the NIPAs' measure of government receipts relative to revenues as measured in the federal budget and also increases the NIPAs' measure of government expenditures relative to budget outlays. However, because the difference in treatment affects receipts and expenditures in the NIPAs by exactly the same amount, it has no impact on the NIPAs' measure of net federal government saving.

Surpluses (or Deficits) of Government Enterprises

In the NIPAs, the surpluses (or deficits) recorded by certain government enterprises, such as the Postal Service,

10. Another type of capital transfer that is excluded from the NIPAs' measures of current receipts and current expenditures is the annual lump-sum payment that the Treasury makes to the Department of Defense Medicare-Eligible Retiree Health Care Fund. Since October 2002, that trust fund has paid for benefits to retired members of the armed forces (and their dependents) who are eligible for Medicare. The Treasury's payments to the trust fund are for accrued but unfunded liabilities for benefits attributable to work performed before 2003; BEA excludes those payments from current federal expenditures because they are not related to current production. In the budget, those annual payments by the Treasury are recorded as outlays. However, the budget also records offsetting receipts (negative outlays) of those amounts. Because those annual payments have no net effect on federal spending either in the NIPAs or in the budget, they are not included among the reconciliation items in Table 1.

are shown on a separate line as current receipts of the federal government. That treatment follows international accounting standards, which generally advocate reporting spending on a gross, rather than a net, basis. In the federal budget, by contrast, surpluses of government enterprises are treated as offsetting receipts, and deficits are recorded as outlays.

Transactions with Fannie Mae and Freddie Mac, two large government-sponsored enterprises (GSEs) that help provide financing to mortgage markets, are shown elsewhere in the NIPAs. Payments from the government to the two entities are treated as capital transfers; dividends received by the government on its investments in the entities are considered as income receipts on assets. However, CBO's baseline budget projections generally include the estimated subsidy costs of the two GSEs' transactions, adjusted for market risk.[11]

Military Sales and Assistance In-Kind

In the NIPAs, the military's purchases of equipment and services that are intended to be sold or given to foreign governments are not included in the category of federal consumption; instead, those transactions are considered net exports in the NIPAs' foreign-transactions account. In the case of gifts, the transactions are also recorded in the federal sector in the NIPAs as transfers to the rest of the world—a classification that parallels their treatment in the federal budget, where they are categorized as outlays. In the case of sales to foreign governments, the transactions are not recorded in the federal sector in the NIPAs—a classification that differs from their treatment in the federal budget, where the cost of acquiring the equipment or services which are then sold is classified as an outlay and the proceeds from the sales are recorded as offsetting receipts. Because the acquisition cost and the sales price are the same (apart from any gift value, whose treatment is discussed above), such transactions have no net effect on federal outlays in the budget, so no adjustment is required to align total expenditures in the budget and the NIPAs.

Timing Differences

As much as is possible, the NIPAs measure the flow of income when it is earned (on an accrual basis) rather than when it is received (on a cash basis).[12] For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the year in which the taxes are actually paid. That approach makes sense in an integrated system of accounts that tracks both production and income, because on an accrual basis (measurement problems aside) the value of what is produced in a given period should match the total income generated. However, the NIPAs are not entirely consistent in that respect: Personal tax payments are counted in the same calendar year in which they are made and thus are not attributed retroactively to the year in which the liabilities were incurred. Because the budget is recorded mostly on a cash basis whereas the NIPAs' federal sector is recorded largely on an accrual basis, the timing of recorded transactions differs in several areas.

Corporate Taxes. Although corporations make estimated payments throughout the year, any shortfalls (or overpayments) are corrected in the form of final payments (or refunds) in subsequent years. The federal budget records those final payments on a cash basis, but the NIPAs shift them back to the year in which the corporate profits that gave rise to the tax liabilities were actually generated. The results of that difference are difficult to identify for recent years; therefore, they appear in the "Other adjustments" category under "Receipts" in Table 1.[13]

Personal Taxes. Although personal taxes are not recorded on an accrual basis in the NIPAs, BEA nevertheless attempts to avoid large, distorting upward or downward

11. CBO considers the activities of Fannie Mae and Freddie Mac to be governmental, and therefore it estimates the subsidy costs of new activity by the two entities as federal outlays. The Administration, in contrast, considers the two entities to be outside the federal government for budgetary purposes and records cash transactions between the Treasury and Fannie Mae and Freddie Mac as federal outlays or receipts (in CBO's view, those are intragovernmental transactions). However, to provide CBO's best estimate of what the Treasury will ultimately report as the federal deficit for 2013, CBO's current baseline includes an estimate of those net cash transactions for fiscal year 2013.

12. See United Nations, *System of National Accounts* (2008), paragraph 3.58, which emphasizes reporting transactions on an accrual basis; see http://unstats.un.org/unsd/nationalaccount/sna2008.asp. Many of the conceptual changes made to the NIPAs over the years have been based on guidelines from that U.N. document and its predecessors. See also Bureau of Economic Analysis, "The NIPAs and the System of National Accounts," *Survey of Current Business* (December 2004), pp. 17–32, http://go.usa.gov/Trdm (pdf, 587 KB).

13. The "Other adjustments" category under "Receipts" in Table 1 includes timing differences plus discrepancies between dollar amounts in the NIPAs and the budget for recent years that may diminish when BEA makes further revisions to the NIPAs.

spikes in personal disposable income that result from timing quirks. Such quirks occur each year in April, for example, when most final settlements for the previous year's personal taxes are paid. In the NIPAs, therefore, those settlements are spread evenly over the four quarters of the calendar year in which they are paid. (Like accrual accounting, that treatment avoids spikes, but unlike accrual accounting, it does not move payments back to the year in which the liabilities were incurred.) Such "smoothing" can alter the relationship of the NIPAs and the budget accounts for various fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year. Again, those adjustments are difficult to identify for recent years and therefore are not shown separately in Table 1, but instead appear in the category "Other adjustments" under "Receipts."

Transfers and Military Compensation. Timing adjustments are needed on the spending side of the NIPAs to align military compensation and government transfer payments—such as veterans' benefits, Supplemental Security Income (SSI) payments, and Medicare's payments to health care providers—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because quirks in the calendar (the timing of holidays, weekends, or leap years) can accelerate payments.

SSI disbursements, military retirement payments, and veterans' benefits are usually disbursed on the first day of each month, but if that day falls on a weekend or holiday, payments are made a day or more in advance. If that occurrence happens in October, payments are pushed into the previous fiscal year in the budget. In such cases, the NIPAs introduce a timing adjustment that effectively moves the payments back to the first day of the month. Hence, the NIPAs' adjustment always ensures that, for example, there are exactly 12 monthly SSI payments in a year, whereas in the budget, there may be 11 in some years and 13 in others.

Military compensation is normally paid at the beginning and middle of each month, but like other programs whose payments may shift forward, it may sometimes be paid early to avoid weekends. The NIPAs include a similar timing adjustment that always ensures that 24 military compensation payments are recorded in a year, versus the 23 or 25 payments that can occur in the budget in some years. Under "Expenditures" in Table 1, the row labeled "Timing adjustments" reflects such regularizing for transfer payments and military pay.

In another contrast with the federal budget, the NIPAs record Medicare payments on an accrual basis rather than on a cash basis. That treatment better illustrates the link between the underlying economic activity (the medical services provided) and the associated federal transactions (payment for those services), which can be several months apart. However, because the number of Medicare payments varies each month depending on the number of days, the NIPAs include a small timing adjustment each year, which has an effect on the measure of net federal government saving.

Business Activities

Both the federal budget and the NIPAs treat certain revenues as offsetting receipts when they result from voluntary transactions with the public that resemble business activities—for instance, proceeds from the sale of government publications. However, the NIPAs generally have a stricter view of what resembles a business transaction. In particular, Medicare premiums, deposit insurance premiums, rents, royalties, and regulatory and inspection fees are deemed equivalent to business transactions in the budget but not in the NIPAs. Consequently, those transactions, which are negative outlays in the budget, are treated in the NIPAs as government receipts (specifically, as contributions for government social insurance or current transfers from business—for example, fines and fees). Those differences are shown in Table 1 in the category "Netting." Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no impact on the NIPAs' measure of net federal government saving.

Presentation of the Federal Government's Receipts and Expenditures in the NIPAs

Like the budget, the federal sector in the NIPAs classifies receipts by type, but the types differ (see Table 2). The

Table 2.

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

(Billions of dollars)

	Actual, 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
						Receipts						
Current Tax Receipts												
Taxes on personal income	1,124	1,234	1,314	1,505	1,637	1,770	1,887	1,994	2,108	2,228	2,356	2,489
Taxes on corporate income	353	338	456	550	564	519	499	482	479	501	536	549
Taxes on production and imports	114	119	128	137	144	152	158	163	167	173	174	180
Taxes from the rest of the world	17	18	19	20	22	24	25	27	28	30	31	33
Subtotal, Current Tax Receipts	1,607	1,710	1,917	2,212	2,366	2,465	2,568	2,666	2,783	2,932	3,097	3,251
Contributions for Government Social Insurance[a]	927	1,048	1,125	1,173	1,238	1,311	1,382	1,449	1,513	1,583	1,657	1,735
Current Transfer Receipts	63	56	65	98	102	111	113	127	130	127	132	138
Income Receipts on Assets	54	51	47	48	50	50	52	55	54	55	54	55
Current Surpluses of Government Enterprises	-17	-17	-15	-15	-14	-14	-13	-12	-12	-11	-10	-10
Total Current Receipts	**2,633**	**2,848**	**3,139**	**3,516**	**3,741**	**3,923**	**4,103**	**4,285**	**4,467**	**4,684**	**4,931**	**5,168**
						Expenditures						
Consumption Expenditures (Purchases of goods and services)												
Defense												
Compensation and purchased goods and services	611	565	523	521	526	532	539	547	555	563	571	579
Consumption of fixed capital	98	101	105	109	112	116	120	124	129	133	138	143
Subtotal, Defense	709	667	628	629	638	648	659	671	683	696	709	722
Nondefense												
Compensation and purchased goods and services	318	304	298	307	316	324	334	342	349	357	367	374
Consumption of fixed capital	35	37	38	39	41	42	43	44	45	47	48	49
Subtotal, Nondefense	353	341	336	346	357	366	377	386	395	404	415	423
Current Transfer Payments												
Government social benefits												
To persons	1,766	1,812	1,845	1,929	2,012	2,109	2,225	2,330	2,461	2,602	2,764	2,921
To the rest of the world	18	16	17	17	18	18	18	19	20	20	21	22
Subtotal, Government Social Benefits	1,783	1,828	1,861	1,946	2,030	2,127	2,243	2,349	2,481	2,622	2,785	2,942
Other transfer payments												
Grants-in-aid to state and local governments	465	471	495	532	568	600	622	649	678	709	744	782
To the rest of the world	59	62	63	64	65	67	68	70	72	74	76	78
Subtotal, Other Transfer Payments	523	533	558	596	633	666	690	719	750	783	820	861
Interest Payments	314	324	342	379	438	536	650	736	820	896	971	1,045
Subsidies	61	76	85	108	140	160	171	176	181	190	196	203
Total Current Expenditures	**3,744**	**3,769**	**3,810**	**4,004**	**4,236**	**4,503**	**4,791**	**5,037**	**5,310**	**5,590**	**5,895**	**6,196**
						Net Federal Government Saving[b]						
Net Federal Government Saving[b]	**-1,111**	**-921**	**-670**	**-488**	**-495**	**-580**	**-687**	**-752**	**-844**	**-905**	**-964**	**-1,028**
Memorandum:												
Total Federal Consumption	1,062	1,008	964	976	995	1,014	1,036	1,057	1,078	1,100	1,123	1,145

Source: Congressional Budget Office.

Note: * = between zero and $500 million.

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

b. Negative numbers indicate that federal expenditures exceed federal receipts.

NIPAs record five major categories of current receipts. The largest category—current tax receipts—includes taxes on personal income, corporate income, and production and imports (excise taxes and customs duties), as well as taxes from the rest of the world. The next-largest category—contributions for government social insurance—consists of Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes. The remaining categories are current transfer receipts (fines and fees), income receipts on assets (interest, rents, and royalties), and current surpluses of government enterprises (such as the Postal Service). Some of those receipt classifications help determine the NIPAs' measures of such things as disposable income and corporate profits after taxes.

Similarly, the government's expenditures are classified in the NIPAs according to their purpose. The major categories are consumption expenditures (spending on goods and services, including the costs of capital depreciation, with separate estimates for defense and nondefense spending), current transfer payments (to individuals, state and local governments, and the rest of the world), interest payments, and subsidies (to businesses and government enterprises).

Consumption of goods and services for defense and nondefense purposes consists of spending by the government for immediate use in production. The largest share of such consumption is compensation for military and civilian federal employees. Among the government's other consumption expenditures, the consumption of fixed capital (depreciation) represents a partial measure of the services the government receives from its stock of fixed assets (buildings, equipment, and software).

Current transfer payments comprise cash payments that the federal government makes directly to individuals and the rest of the world, as well as grants to state and local governments and foreign nations. Most of the transfer payments to individuals are for social benefits. Grants-in-aid consist of payments to state or local governments, which the recipient governments generally use for transfer payments themselves (such as Medicaid benefits) or for consumption (such as the hiring of police officers). Current transfers to the rest of the world include payments of federal foreign aid.

The NIPAs' category for federal interest payments shows only payments and thus differs from the budget category termed net interest, in which such payments are offset by federal interest receipts. In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs' final category of government expenditures, subsidies, primarily consists of payments by the federal government to businesses, including state and local government enterprises, such as public housing authorities. Federal housing and agricultural assistance have long dominated that category.

The bottom-line measure in the NIPAs' federal sector is net federal government saving, which is the difference between the sector's current receipts and current expenditures.[14] It is a component of net national saving and thus is a partial measure of how much of the nation's income from current production is not consumed in the current period.[15] Net federal saving or dissaving is akin to the federal surplus or deficit measured in the budget. However, net federal government saving is not a good indicator of federal borrowing requirements because, unlike the budget deficit or surplus, it is not a measure of cash flows.[16]

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

15. Net national saving also includes net saving by the state and local government sector, personal saving, and corporate retained earnings.

16. As an addendum to the NIPAs' Table 3.2, BEA publishes a measure labeled "Net Lending or Net Borrowing," which is closer to a cash or financial measure in several ways. Like the budget, it includes investment purchases as expenditures because those purchases must be financed from current receipts or from federal borrowing. At the same time, it excludes consumption of fixed capital because those accounting charges are not a drain on current financial resources. In addition, it includes receipts from the sale of existing assets and capital transfer receipts (such as estate and gift taxes) and capital transfer payments (such as investment grants to state and local governments), which are not part of current receipts or expenditures in the NIPAs but do affect cash flows. Despite those adjustments, net federal lending or borrowing in the NIPAs differs from the budget deficit or surplus because of all of the other differences in timing and coverage that distinguish the NIPAs from the budget. BEA presents those differences in Table 3.18B, which is similar to the presentation in Table 1 of this report.

For the 2013–2023 period, CBO's projection of federal receipts in the NIPAs are about 4 percent higher than CBO's baseline projections of federal revenues in the budget, and CBO's projection of federal expenditures in the NIPAs exceeds its projections of federal outlays in the budget by about 5 percent.[17] Over that period, in the NIPAs, projected expenditures exceed projected receipts by $8.3 trillion, whereas in the agency's baseline budget projections, estimated deficits total $7.8 trillion.

17. As specified in law, and to provide a benchmark against which potential policy changes can be measured, CBO constructs its baseline estimates of federal revenues and spending under the assumption that current laws generally remain unchanged.

Santiago Vallinas of CBO's Budget Analysis Division wrote the report under the supervision of Jeffrey Holland, Theresa Gullo, and Peter Fontaine. Pamela Greene contributed to the analysis. John Skeen edited the document, and Jeanine Rees prepared it for publication. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no policy recommendations. It, along with other CBO publications, is available on the agency's website (www.cbo.gov).

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