

Federal Budget Estimates for Fiscal Year 2008

By Mary L. Roy and Andrew P. Cairns

ON February 5, 2007, the President submitted the *Federal Budget of the United States Government, Fiscal Year 2008* to Congress.¹ For fiscal year 2008, the Federal budget projects a \$239.4 billion deficit, a \$4.8 billion decrease from the \$244.2 billion deficit that is projected for fiscal year 2007. Fiscal year 2006 ended with a \$248.2 billion deficit.²

The budget is presented on a “unified budget” basis, in effect, on a cash basis. It is a financial plan for the Federal Government. Based on this proposed budget, the Bureau of Economic Analysis annually prepares estimates of Federal Government current receipts and expenditures. These translated estimates are consistent with the national income and product accounts (NIPAs), which are designed to broadly measure output and income from production (see the box “NIPA Estimates of the Federal Sector and the Federal Budget Estimates”). Because the estimates of receipts and expenditures are based on the budget estimates, they embody the same assumptions about unemployment, inflation, long-term interest rates, and other variables.³

This analysis thus provides a way to gauge the effects of the Federal budget on various aggregate measures of U.S. economic activity, such as the Federal Government’s impact on national saving. The results of the analysis include the following:

- NIPA net Federal Government saving for fiscal year 2008 is projected to be $-\$238.3$ billion, a \$4.9 billion decrease from net Federal Government saving of $-\$233.4$ billion that is projected for fiscal year 2007.
- Proposed legislative and program changes would add \$201.2 billion to the Federal budget deficit in fiscal year 2008; the increase mainly reflects a proposed appropriation to continue funding for the

global war on terror and a proposed extension of the alternative minimum tax relief for individuals.

The rest of this article is divided into four sections. First, the budget estimates are summarized, and the effects of the major legislative proposals and program changes on the budget are reviewed. Second, the budget projections and the NIPA estimates are compared. Third, annual and quarterly NIPA estimates for fiscal years 2007 and 2008 that are based on the budget are presented. Fourth, the methodology used to translate the budget projections into the NIPA framework is explained.

The Budget Estimates

Federal budget receipts in fiscal year 2008 are projected to increase \$122.4 billion, to \$2,662.5 billion, according to the President’s budget proposal (table 1). Federal budget receipts in fiscal year 2007 are estimated to be \$2,540.1 billion, a \$132.8 billion increase. The deceleration is more than accounted for by a deceleration in individual income taxes, which would increase \$77.8 billion in 2008 after increasing \$124.9 billion in 2007, and a continued decline in corporation income taxes, which would decrease \$27.1 billion after decreasing \$11.9 billion in 2007. The deceleration in budget receipts in 2008 is tempered by an acceleration in social insurance taxes and contributions, which would increase \$53.8 billion after increasing \$35.6 billion, and by an upturn in excise taxes, which would increase \$11.0 billion after decreasing \$16.9 billion.

Table 1. Budget Receipts by Source

[Billions of dollars]

	Level for fiscal year				Change from preceding year		
	2005	2006	2007	2008	2006	2007	2008
Budget receipts	2,153.9	2,407.3	2,540.1	2,662.5	253.4	132.8	122.4
Individual income taxes.....	927.2	1,043.9	1,168.8	1,246.6	116.7	124.9	77.8
Corporation income taxes.....	278.3	353.9	342.1	314.9	75.6	-11.9	-27.1
Social insurance taxes and contributions.....	794.1	837.8	873.4	927.2	43.7	35.6	53.8
Excise taxes.....	73.1	74.0	57.1	68.1	0.9	-16.9	11.0
Estate and gift taxes.....	24.8	27.9	25.3	25.7	3.1	-2.6	0.4
Customs duties.....	23.4	24.8	26.8	29.2	1.4	2.0	2.5
Miscellaneous receipts.....	33.0	45.0	46.7	50.7	12.0	1.7	4.0

Source: *Budget of the United States Government, Fiscal Year 2008*.

1. Executive Office of the President, Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2008* (Washington, DC: U.S. Government Printing Office, 2007); <www.whitehouse.gov/omb/budget/fy2008/budget.html>.

2. These estimates of the Federal budget are derived from all Federal transactions; they are the difference between the unified budget receipts and the unified budget outlays. Other measures of the Federal budget that differ from these measures may present off-budget and on-budget transactions and trust funds surplus and Federal funds deficit.

3. See “Economic Assumptions,” in *Analytical Perspectives: Budget of the United States Government, Fiscal Year 2008*, 165–174.

NIPA Estimates of the Federal Sector and the Federal Budget Estimates

The Bureau of Economic Analysis (BEA) prepares estimates of the Federal sector in the framework of the national income and product accounts (NIPAs). Unlike the Federal budget, which is a financial plan of the Government, the NIPA Federal estimates are designed to facilitate macroeconomic analyses of the effects of Federal Government activity on national and personal income and on national saving.¹

Unlike the Federal budget estimates, the NIPAs distinguish current transactions from capital transactions. Current transactions for production, for income, and for consumption are presented in the summary NIPA accounts 1–5, and capital transactions for the acquisition and disposal of nonfinancial assets are presented in summary NIPA accounts 6 and 7.² Because of this organization, the following types of transactions are not included in NIPA Federal Government current receipts and current expenditures but are shown in account 6 and as addenda items in NIPA table 3.2:

- **Government investment in fixed assets.** In the NIPAs, government consumption expenditures exclude investment in fixed assets and include consumption of fixed capital, a depreciation charge on fixed assets that are used in production.
- **Transfers involving the acquisition or disposal of assets.** In the NIPAs, these transactions are classified as capital transfer receipts and payments and are presented in the domestic capital account.³ Capital transfers include certain investment grants-in-aid to state and local governments, investment subsidies to businesses, lump-sum payments to amortize the unfunded liability of the Uniformed Services Retiree Health Care Fund, and estate and gift taxes.
- **Transactions involving nonproduced assets.** In the NIPAs, purchases and sales of nonproduced assets, such as land and the radio spectrum, are reflected in “capital account transactions (net)” in the domestic capital account.

The NIPA estimates also differ from the budget estimates because of the scope and coverage of the Federal Government sector. Examples include the following:

- **Retirement plans.** Government employee contributions to retirement plans are included in budget receipts, but they are

excluded from NIPA current receipts because they are included in personal income as part of the income of employees. Similarly, Federal employee retirement benefits are included in budget outlays, but they are excluded from NIPA current expenditures because the benefits are paid from assets that represent equity belonging to the personal sector.

- **Other differences.** The NIPA Federal Government sector excludes certain transactions with the residents of Puerto Rico and the U.S. Territories and with the Federal Communication Commission Universal Service Fund.

Receipts

NIPA Federal Government current receipts differ from Federal budget receipts because of differences in coverage, netting and grossing, and timing.⁴ For most years, the differences between NIPA current receipts and budget receipts primarily reflect capital transfers received, supplementary medical insurance premiums, and personal and business current transfer receipts. (Personal and business current transfer receipts are classified as receipts in the NIPAs, but some are netted against outlays in the budget.)

Expenditures

NIPA Federal Government current expenditures differ from Federal budget outlays because of differences in coverage, netting and grossing, and timing. For most years, the differences between the two measures primarily reflect capital transfers paid, Federal employee retirement plan transactions, personal and business current transfer receipts, and net investment.

In the NIPAs, budget outlays for national defense and non-defense are reflected in both consumption expenditures and gross investment. For national defense, the budget outlays differ from the NIPA estimates for several reasons:

- The NIPA measure includes general government consumption of fixed capital.
- In the NIPAs, cash payments to amortize the unfunded liability for military and civilian retirement benefits are included as defense consumption expenditures; the budget records these payments as intergovernmental transactions.
- NIPA expenditures are recorded on a delivery (accrual) basis, and budget outlays are recorded on a cash basis; thus, in the NIPAs, all work in progress except ships and structures are included as part of change in private inventories.

1. For a comparison, see tables 4 and 5 and NIPA table 3.18B. See also “National Income and Product Accounts” in *Analytical Perspectives: Budget of the U.S. Government*, 203–208.

2. Current transactions are presented in the “Domestic Income and Product Account,” “Private Enterprise Income Account,” “Personal Income and Outlay Account,” “Government Receipts and Expenditures Account,” and “Foreign Transactions Current Account.” Capital transactions are presented in the “Domestic Capital Account” and the “Foreign Transactions Capital Account.” See “Summary National Income and Product Accounts,” *SURVEY OF CURRENT BUSINESS* 86 (August 2006): 38–39. The Federal Government components of the domestic capital account are often shown as addenda in tables presenting Federal Government current receipts and expenditures.

3. The flow of funds accounts of the Federal Reserve Board present detailed information on the acquisition and disposal of financial assets and liabilities by U.S. economic sectors, including the Federal Government.

4. The differences in coverage arise because certain transactions that are excluded from the NIPAs are included in the budget (and vice versa). The differences in netting and grossing arise because certain transactions are recorded as offsets to outlays in the budget, but they are recorded as receipts in the NIPAs (and vice versa). The differences in timing arise because in the budget, most receipts and outlays are recorded on a cash basis, and in the NIPAs, some transactions are recorded on an accrual basis.

Federal budget outlays in fiscal year 2008 are projected to increase \$117.6 billion, to \$2,901.9 billion (table 2). Federal budget outlays in fiscal year 2007 are estimated to be \$2,784.3 billion, a \$128.8 billion increase. The deceleration is accounted for by decelerations in outlays for the following functions: Medicare, national defense, social security, international affairs, health, and administration of justice. Downturns in outlays for natural resources and the environment and energy also contributed to the deceleration. The deceleration in budget outlays is moderated by smaller decreases in outlays for the following functions: Community and regional development; education, training, employment, and social services; agriculture; and commerce and housing credit. Outlays for net interest, veterans benefits and services, and income security would accelerate, and “undistributed offsetting receipts” would decrease less.

For Medicare, budget outlays would increase \$19.4 billion in 2008 after increasing \$42.4 billion in 2007. For national defense, budget outlays would increase \$34.7 billion after increasing \$50.0 billion. For social security, budget outlays would increase \$26.0 billion after increasing \$38.0 billion. For international affairs, budget outlays would increase \$1.1 billion after increasing \$5.5 billion. For natural resources and the environment, budget outlays would decrease \$2.3 billion after increasing \$2.1 billion.

For community and regional development, budget outlays would decrease \$8.0 billion in 2008 after de-

creasing \$21.9 billion in 2007. For education, training, employment, and social services, budget outlays would decrease \$11.2 billion after decreasing \$24.6 billion. For agriculture, budget outlays would decrease \$0.2 billion after decreasing \$5.9 billion. For commerce and housing credit, budget outlays would decrease \$2.3 billion after decreasing \$6.0 billion.

For net interest, budget outlays would increase \$22.1 billion after increasing \$12.6 billion. “Undistributed offsetting receipts” (negative outlays) would increase \$4.4 billion after increasing \$13.6 billion. For veterans benefits and services, budget outlays would increase \$11.0 billion after increasing \$2.6 billion. For income security, budget outlays would increase \$15.4 billion after increasing \$12.9 billion.

Proposed legislative and program changes

The budget for fiscal year 2008 proposes changes in legislation and in programs that would increase the Federal deficit \$58.9 billion in fiscal year 2007 and \$201.2 billion in fiscal year 2008 (table 3).⁴

Receipts. If proposed legislation is enacted, receipts would decrease \$9.6 billion in fiscal year 2007 and \$51.5 billion in fiscal year 2008, relative to the current-services baseline.

- A proposal to extend the amount of the alternative minimum tax (AMT) exemption and the use of nonrefundable personal tax credits to offset both the regular tax and the AMT would reduce receipts \$9.1 billion in fiscal year 2007 and \$47.9 billion in fiscal year 2008.
- A proposal to permanently extend the 20-percent tax credit for qualified research and experimentation expenses that are above specified amounts would reduce receipts \$3.2 billion in 2008.
- A proposal to provide enhanced expense-related tax benefits for small businesses would reduce receipts \$1.6 billion in 2008.
- A proposal to repeal the excise tax for local telephone service would reduce receipts \$0.6 billion in 2007 and \$0.5 billion in 2008. (See the box “New Transactions in the NIPA Federal Sector” on page 20.)
- A proposal to extend the unemployment insurance surtax that requires employers to continue to pay at a 0.8-percent tax rate for 5 more years before dropping back to a 0.6-percent rate would increase receipts \$1.1 billion in 2008.

Table 2. Budget Outlays by Function

[Billions of dollars]

	Level for fiscal year				Change from preceding year		
	2005	2006	2007	2008	2006	2007	2008
Budget outlays	2,472.2	2,655.4	2,784.3	2,901.9	183.2	128.8	117.6
National defense	495.3	521.8	571.9	606.5	26.5	50.0	34.7
International affairs.....	34.6	29.5	35.1	36.1	-5.0	5.5	1.1
General science, space, and technology	23.6	23.6	24.9	26.6	0.0	1.2	1.8
Energy	0.4	0.8	1.8	1.4	0.4	1.1	-0.4
Natural resources and environment.....	28.0	33.1	35.2	32.9	5.0	2.1	-2.3
Agriculture	26.6	26.0	20.1	19.9	-0.6	-5.9	-0.2
Commerce and housing credit	7.6	6.2	0.2	-2.0	-1.4	-6.0	-2.3
Transportation	67.9	70.2	74.6	79.3	2.3	4.4	4.7
Community and regional development	26.3	54.5	32.6	24.7	28.3	-21.9	-8.0
Education, training, employment, and social services	97.6	118.6	94.0	82.7	21.0	-24.6	-11.2
Health	250.6	252.8	268.5	280.6	2.2	15.8	12.1
Medicare	298.6	329.9	372.3	391.6	31.2	42.4	19.4
Income security	345.8	352.5	365.4	380.8	6.6	12.9	15.4
Social security	523.3	548.5	586.5	612.5	25.2	38.0	26.0
Veterans benefits and services	70.2	69.8	72.4	83.4	-0.3	2.6	11.0
Administration of justice	40.0	41.0	45.3	47.0	1.0	4.3	1.7
General government.....	17.0	18.2	18.8	20.7	1.2	0.5	2.0
Net interest.....	184.0	226.6	239.2	261.3	42.6	12.6	22.1
Allowances ¹			7.4	2.1			-5.4
Undistributed offsetting receipts ²	-65.2	-68.3	-81.8	-86.3	-3.0	-13.6	-4.4

1. Allowances are included in budget totals to cover certain budgetary transactions that are expected to increase or decrease outlays, receipts, or budget authority but that are not reflected in the program details.

2. Undistributed offsetting receipts are two categories of collections that are governmental in nature and that are not credited to expenditure accounts: Receipts from performing business-like activities, such as proceeds from selling Federal assets or leases; and shifts from one account to another, such as agency payments to retirement funds.

Source: *Budget of the United States Government, Fiscal Year 2008*.

4. The estimates of the proposed changes are the differences between the current-services estimates and the actual budget. The current-services estimates in the 2008 budget reflect certain proposed adjustments to the requirements for estimating the current-services baseline under the Budget Enforcement Act.

- A proposal to expand tax-free savings by replacing Individual Retirement Accounts (IRAs) with Lifetime Savings Accounts (LSAs) and Retirement Savings Accounts (RSAs) would increase receipts \$1.5 billion in 2008.⁵

Receipts proposals that are included in the current-services baseline would increase receipts \$0.2 billion in fiscal year 2007 and would decrease receipts \$0.7 billion in fiscal year 2008(table 3).

5. Under this proposal, individuals, regardless of age or income, could make annual nondeductible contributions to each of these accounts. For tax purposes, LSA distributions would be excluded from income, and RSA distributions would be excluded from income after the account holder is age 58 or in the event of disability or death.

Table 3. Proposed Legislative and Program Changes in the Budget

[Billions of dollars]

	Fiscal year	
	2007	2008
Receipts		
Current-services estimates ¹	2,549.7	2,714.0
Plus: Proposed legislation excluding proposals assumed in the baseline ²	-9.6	-51.5
Extend alternative minimum tax relief for individuals	-9.1	-47.9
Extend research and experimentation tax credit	0.0	-3.2
Increase expensing for small business	0.0	-1.6
Repeal excise tax on local telephone service	-0.6	-0.5
Improve unemployment insurance	0.0	1.1
Expand tax-free savings opportunities	0.0	1.5
Other	0.1	-0.9
Equals: The budget	2,540.1	2,662.5
Outlays		
Current-services estimates ¹	2,735.0	2,752.1
Plus: Program changes excluding proposals assumed in the baseline ²	49.3	149.7
National defense	36.8	137.2
Net Interest	1.5	7.7
International affairs	2.3	4.1
Veterans benefits and services	0.0	3.9
Administration of justice	0.0	2.3
Allowances ³	7.4	2.1
Transportation	0.0	1.1
General science, space, and technology	0.0	1.0
Community and regional development	1.2	0.9
Income security	0.0	0.4
Agriculture	0.0	0.1
Commerce and housing credit	0.0	-0.1
Energy	0.0	-0.1
Natural resources and environment	0.1	-0.2
Undistributed offsetting receipts ⁴	-0.1	-0.5
Education, training, employment, and social services	0.0	-1.1
Health	0.0	-1.1
Medicare	0.0	-4.0
Other	0.1	-4.0
Equals: The budget	2,784.3	2,901.9
Current-services surplus or deficit (-)	-185.3	-38.2
Proposed changes, receipts less outlays	-58.9	-201.2
Administration budget surplus or deficit (-)	-244.2	-239.4
Addenda:		
Net effect of adjustments to the Budget Enforcement Act current-services baseline	0.2	43.0
Effect on receipts of proposals assumed in the baseline.....	0.2	-0.7
Make permanent certain provisions of the tax cuts enacted in 2001 and 2003:		
Repeal of estate and generation-skipping transfer taxes	-0.2	-1.4
Extend dividends tax rate structure	0.3	0.7
Adjustments to the baseline for outlays	0.0	-43.7
Adjustment for redefinition of emergencies		-40.3
Adjustment for cost of pay raises		-2.1
Other adjustments.....	0.0	-1.2

1. These current-services estimates reflect proposed adjustments to the Budget Enforcement Act current-services baseline. For information on these adjustments, see "Budget Reform Proposals" in the *Analytical Perspectives*.

2. Consistent with the budget, the proposed legislation excludes budget reform proposals that are included in the baseline.

3. Allowances are included in budget totals to cover certain budgetary transactions that are expected to increase or decrease outlays, receipts or budget authority but are not reflected in the program details.

4. Undistributed offsetting receipts are two categories of collections that are governmental in nature and that are not credited to expenditure accounts: Receipts from performing business-like activities, such as proceeds from selling Federal assets or leases; and shifts from one account to another, such as agency payments to retirement funds.

Source: *Budget of the United States Government, Fiscal Year 2008*.

- A proposal to permanently extend the repeal of estate taxes and generation-skipping transfer taxes would reduce receipts \$0.2 billion in 2007 and \$1.4 billion in 2008.

- A proposal to permanently extend the reduced tax rate on dividends would increase receipts \$0.3 billion in 2007 and \$0.7 billion in 2008.⁶

Outlays. The budget for fiscal year 2008 would increase total outlays \$49.3 billion in fiscal year 2007 and \$149.7 billion in 2008, relative to the current-services baseline.⁷ The increase in outlays in 2008 is accounted for by the following items:

- Outlays for national defense would increase \$137.2 billion, reflecting a \$48.3 billion increase in anticipated supplemental funding for the global war on terror. Proposed changes in discretionary spending on military operations and maintenance, on military personnel, and on procurement would also contribute to the increase in national defense outlays.

- Outlays for net interest would increase \$7.7 billion as a result of the increasing cost of financing the deficit.

- Outlays for international affairs would increase \$4.1 billion, reflecting an increase in outlays for AIDS relief and an increase in outlays for reconstruction and economic support in Iraq and Afghanistan.

- Outlays for veterans benefits and services would increase \$3.9 billion, reflecting the increasing health care costs associated with the global war on terror and the aging veterans population.

The increase in outlays is partly offset by proposed decreases in outlays for Medicare, for education, training, employment, and social services, for health care, and for several other functions.

The adjustments to the baseline requirements of the Budget Enforcement Act would reduce current-services-baseline outlays \$43.7 billion in fiscal year 2008 (table 3).

- Outlays for national defense, for international aid, and for disaster assistance would decrease \$40.3 billion in order to exclude emergency funding from the baseline for years after the year of enactment.

- Outlays would decrease \$2.1 billion in order to correct the overstatement of the cost related to Federal pay raises in the baseline.⁸

6. The rate would be 15 percent for taxpayers in individual tax brackets that are above 15 percent and 5 percent for lower income taxpayers through 2007; the rate for lower income taxpayers would fall to zero in 2008.

7. Outlays for homeland security are spread throughout selected budget functions, including national defense, health, transportation, and the administration of justice.

8. As required by the Budget Enforcement Act, the baseline uses October as the effective date for Federal pay raises; the current-services estimates are based on the assumption that Federal pay raises are effective in January.

The Budget Estimates and the NIPA Estimates

The Bureau of Economic Analysis (BEA) adjusts the Federal budget's estimates of receipts and outlays in order to prepare estimates of Federal Government current receipts and current expenditures that are consistent with NIPA concepts and methods.

Receipts

For fiscal year 2008, NIPA current receipts would exceed budget receipts by \$104.9 billion as a result of netting and grossing, coverage, and timing adjustments (table 4).⁹ Netting and grossing adjustments would add \$133.7 billion to the budget estimates. "Other" netting and grossing adjustments—which include adjustments for Federal Government payments to the Old-Age, Survivors, and Disability Trust Funds—would add \$64.7 billion, and adjustments for payments for supplementary medical insurance premiums would add \$60.4 billion. Timing adjustments would add \$14.4 billion, which is accounted for by timing on taxes on corporate income. Coverage adjustments would subtract \$43.3 billion. Coverage adjust-

9. Netting and grossing adjustments arise because certain transactions are recorded as offsets to outlays in the budget, but they are recorded as receipts in the NIPAs (and vice versa).

Table 4. Relation of NIPA Federal Government Current Receipts to Budget Receipts
[Billions of dollars]

	Fiscal year		
	2006	2007	2008
Budget receipts	2,407.3	2,540.1	2,662.5
Less: Coverage differences.....	44.3	42.2	43.3
Geographic ¹	4.6	4.9	5.1
Contributions received by Federal employee retirement plans ²	4.4	4.7	4.7
Capital transfers received ³	27.7	25.0	25.5
Financial transactions.....	0.0	0.0	0.0
Other ⁴	7.6	7.5	8.0
Netting and grossing differences.....	-112.7	-121.7	-133.7
Supplementary medical insurance premiums.....	-48.3	-56.0	-60.4
Income receipts on assets.....	-10.7	-10.3	-10.2
Current surplus of government enterprises.....	3.6	2.0	1.6
Other ⁵	-57.4	-57.4	-64.7
Plus: Timing differences.....	-2.0	21.2	14.4
Taxes on corporate income.....	3.0	4.7	15.9
Federal and state unemployment insurance taxes.....	-0.2	0.0	-0.5
Withheld personal current tax and social security contributions.....	-5.8	5.2	-4.9
Excise taxes.....	4.0	14.6	7.1
Other.....	-3.1	-3.2	-3.1
Equals: NIPA Federal Government current receipts	2,473.6	2,640.9	2,767.4

1. Primarily consists of contributions for social insurance by residents of U.S. territories and Puerto Rico.

2. These transactions are included in the NIPA personal sector.

3. Consists of estate and gift taxes.

4. Primarily consists of Treasury receipts from sales of foreign currencies to Government agencies.

5. Includes proprietary receipts that are netted against outlays in the budget and that are classified as receipts in the NIPAs and some transactions that are not reflected in the budget but that are added to both NIPA receipts and expenditures.

Sources: *Budget of the United States Government, Fiscal Year 2008* and the Bureau of Economic Analysis.

ments for capital transfers received, which consists of estate and gift taxes, would subtract \$25.5 billion.

Expenditures and outlays

For fiscal year 2008, the NIPA estimate of Federal Government current expenditures would exceed the Federal budget estimate of outlays by \$103.7 billion (table 5). Netting and grossing adjustments would add \$133.7 billion to the budget estimates, timing adjustments would add \$0.7 billion, and coverage adjustments would subtract \$30.7 billion. Coverage adjustments for capital transfers paid, which includes capital grants to state and local governments and to businesses, would subtract \$55.8 billion, and adjustments for Federal employee retirement plan transactions would add \$47.4 billion.

Table 5. Relation of NIPA Federal Government Current Expenditures to Budget Outlays
[Billions of dollars]

	Fiscal year		
	2006	2007	2008
Budget outlays	2,655.4	2,784.3	2,901.9
Less: Coverage differences.....	66.6	40.6	30.7
Geographic ¹	15.2	16.4	16.9
Federal employee retirement plan transactions ²	-42.4	-44.4	-47.4
Interest received.....	-54.0	-56.4	-60.0
Contributions received (employer).....	-97.4	-103.7	-108.8
Benefits paid.....	108.7	115.6	121.2
Administrative expenses.....	0.2	0.2	0.2
Financing disbursements from credit programs ³	16.3	-16.9	-23.2
Other differences in funds covered ⁴	6.6	8.0	7.5
Net investment ⁵	10.1	17.6	8.5
Capital transfers paid ⁶	51.2	53.9	55.8
Financial transactions.....	9.6	19.7	25.8
Loan disbursements less loan repayments and sales.....	21.1	24.9	28.8
Deposit insurance.....	1.2	0.7	1.2
Net purchases of foreign currency.....	0.0	0.0	0.0
Other.....	-12.7	-5.8	-4.2
Net purchases of nonproduced assets.....	0.0	-13.7	-13.3
Outer Continental Shelf.....	-0.1	0.0	-1.1
Land and other ⁷	0.1	-13.7	-12.2
Other ⁸	0.0	0.0	0.0
Netting and grossing differences.....	-112.7	-121.7	-133.7
Supplementary medical insurance premiums.....	-48.3	-56.0	-60.4
Interest receipts.....	-10.7	-10.3	-10.2
Current surplus of government enterprises.....	3.6	2.0	1.6
Other ⁹	-57.4	-57.4	-64.7
Plus: Timing differences.....	-14.0	8.9	0.7
Purchases (increase in payables net of advances).....	1.1	3.7	-3.3
Interest.....	0.5	0.5	0.5
Current transfer payments.....	-0.8	5.8	0.3
Other timing.....	-14.8	-1.2	3.3
Equals: NIPA Federal Government current expenditures	2,687.5	2,874.3	3,005.6

1. Consists largely of government social benefits, subsidies, and grants-in-aid to residents of U.S. territories and Puerto Rico.

2. These transactions are included in the NIPA personal sector.

3. Consists of transactions not included in the budget totals that record all cash flows from post-1991 direct loan obligations and loan guarantee commitments. Many of these flows are for new loans or loan repayments; consequently related entries are included in "Loan disbursements less loan repayments and sales."

4. Consists largely of agencies or accounts, such as the Postal Service and the Federal Financing Bank, that were not included in the budget in some periods.

5. Net investment is gross investment less consumption of fixed capital for general government and government enterprises.

6. Consists of investment grants to state and local governments and maritime construction subsidies. Does not include the forgiveness of debts owed by foreign governments to the United States, which are excluded from both budget outlays and NIPA current expenditures.

7. Consists of net sales of land other than the Outer Continental Shelf and, beginning in 1995, the auction of the radio spectrum.

8. Consists largely of net expenditures of foreign currencies.

9. Includes proprietary receipts that are netted against outlays in the budget and that are classified as receipts in the NIPAs. Also includes some transactions that are not reflected in the budget data but that are added to both receipts and expenditures in the NIPAs.

Sources: *Budget of the United States Government, Fiscal Year 2008* and the Bureau of Economic Analysis.

For fiscal year 2008, the NIPA estimate of national defense consumption expenditures would exceed the budget estimate of national defense outlays by \$10.7 billion (table 6). The estimates differ mainly because of the NIPA treatment of retirement funds for military and civilian employees and the addition of consumption of fixed capital.

Table 6. Relation of NIPA National Defense Consumption Expenditures and Gross Investment to National Defense Outlays
[Billions of dollars]

	Fiscal year		
	2006	2007	2008
Budget outlays for national defense	521.8	571.9	606.5
Department of Defense, military	499.4	548.9	583.3
Military personnel	127.5	128.8	135.7
Operation and maintenance	203.8	224.8	248.6
Procurement	89.8	104.3	110.8
Aircraft	23.2	27.5	27.3
Missiles	5.7	5.8	5.3
Ships	10.3	11.2	9.8
Weapons	5.9	7.0	8.4
Ammunition	2.0	2.3	2.5
Other ¹	42.7	50.6	57.6
Research, development, test, and evaluation	68.6	71.1	69.6
Other	9.6	20.0	18.5
Atomic energy and other defense-related activities	22.5	23.0	23.3
Plus: Consumption of general government fixed capital	70.8	74.2	77.2
Additional payments to military and civilian retirement funds	31.1	35.2	36.5
Timing difference	1.4	1.6	-1.9
Less: Grants-in-aid to state and local governments and net interest paid	3.6	3.6	3.4
Other differences	11.9	13.5	18.6
Equals: NIPA National defense consumption expenditures and gross investment	609.6	665.8	696.4
Less: National defense gross investment ²	76.9	86.7	79.1
Equals: NIPA National defense consumption expenditures	532.8	579.1	617.2

1. Other military outlays include outlays for military construction, family housing, and anticipated funding for the global war on terror.
2. Gross investment consists of general government expenditures for fixed assets; inventory investment is included in Federal Government consumption expenditures.
Sources: *Budget of the United States Government, Fiscal Year 2008* and the Bureau of Economic Analysis.

Net saving and the budget deficit

For fiscal year 2008, the NIPA estimate of net Federal Government saving is -\$238.3 billion; the comparable Federal budget estimate is -\$239.4 billion (table 7). The difference reflects coverage and timing adjustments. The coverage adjustments reduce both NIPA current receipts and NIPA current expenditures; the timing adjustments raise both NIPA current receipts and NIPA current expenditures. Netting and grossing adjustments affect NIPA current receipts and NIPA current expenditures equally, so these adjustments do not affect net Federal Government saving.

Annual and Quarterly NIPA Estimates

Fiscal year NIPA estimates

On a NIPA basis, net Federal Government saving would decrease \$4.9 billion in fiscal year 2008 after decreasing \$19.5 billion in fiscal year 2007 (table 7 and chart 1). The smaller decrease results from a larger de-

celeration in Federal Government current expenditures than in Federal Government current receipts.

Receipts. Total NIPA Federal Government current receipts would increase \$126.4 billion after increasing \$167.3 billion (table 8 and chart 2). The deceleration results from proposed legislation that would decrease receipts \$43.9 billion and from a deceleration in the tax base that would increase receipts \$163.8 billion. (The estimates of the tax base are based on the administration's economic assumptions and do not include the effects of proposed legislation.)

In current tax receipts, personal current taxes would decelerate, increasing \$80.0 billion after increasing

Chart 1. Federal Fiscal Position

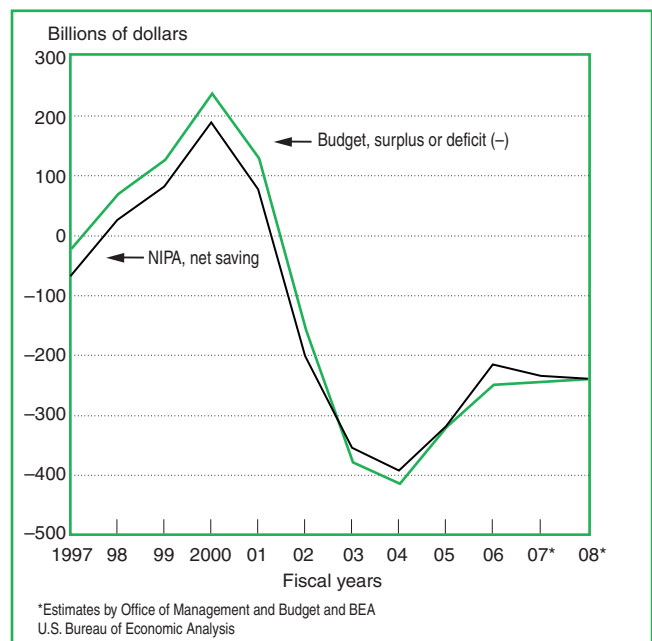


Table 7. Budget Receipts and Outlays and NIPA Federal Government Current Receipts and Expenditures
[Billions of dollars]

	Level for fiscal year			Change from preceding fiscal year	
	Actual	Estimates		2007	2008
	2006	2007	2008		
Budget:					
Receipts	2,407.3	2,540.1	2,662.5	132.8	122.4
Outlays	2,655.4	2,784.3	2,901.9	128.9	117.6
Surplus or deficit (-)	-248.2	-244.2	-239.4	4.0	4.8
NIPAs:					
Current receipts	2,473.6	2,640.9	2,767.4	167.3	126.4
Current expenditures	2,687.5	2,874.3	3,005.6	186.8	131.3
Net Federal Government saving	-213.9	-233.4	-238.3	-19.5	-4.9
	Differences				
Budget receipts less NIPA current receipts	-66.3	-100.8	-104.9	-34.5	-4.1
Budget outlays less NIPA current expenditures	-32.1	-90.0	-103.7	-57.9	-13.7
Budget deficit less NIPA net Federal Government saving	-34.2	-10.8	-1.1	23.5	9.7

Sources: *Budget of the United States, Fiscal Year 2008* and the Bureau of Economic Analysis.

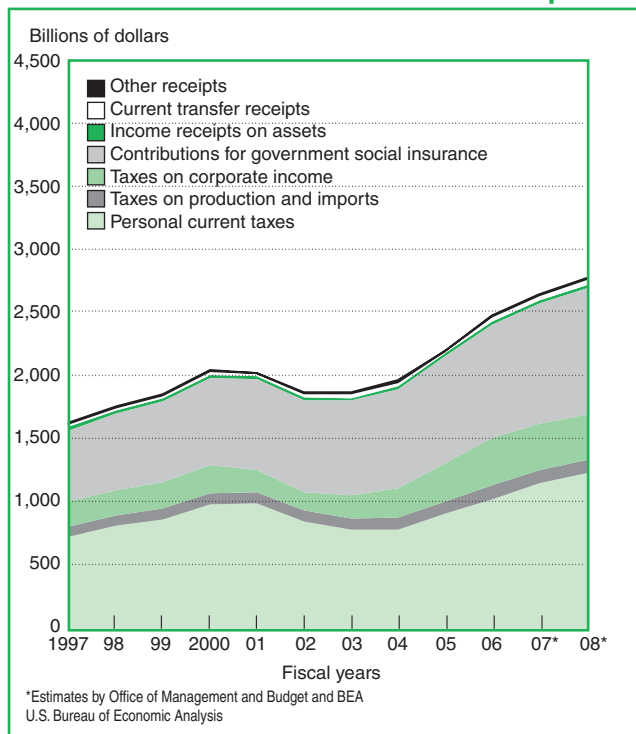
\$122.9 billion, reflecting proposed legislation and a deceleration in the tax base. Taxes on production and imports would turn up, increasing \$5.6 billion after decreasing \$3.5 billion. Taxes on corporate income would decrease \$16.7 billion after decreasing \$7.1 billion, reflecting a decrease in the tax base. Contribu-

Table 8. Sources of Change in NIPA Federal Government Current Receipts
[Billions of dollars]

	Change from preceding fiscal year		
	2006	2007	2008
Total current receipts	275.0	167.3	126.4
Due to tax bases.....	243.5	176.1	163.8
Due to proposed legislation.....	0.0	-9.3	-43.9
Current tax receipts.....	203.3	112.6	68.9
Personal current taxes.....	119.6	122.9	80.0
Due to tax bases.....	119.6	131.8	119.2
Due to proposed legislation.....	0.0	-8.9	-39.2
Taxes on production and imports.....	6.4	-3.5	5.6
Due to tax bases.....	6.4	-2.8	6.1
Due to proposed legislation.....	0.0	-0.7	-0.5
Taxes on corporate income.....	77.3	-7.1	-16.7
Due to tax bases.....	77.3	-7.4	-12.5
Due to proposed legislation.....	0.0	0.3	-4.2
Taxes from the rest of the world.....	0.0	0.3	0.0
Contributions for government social insurance.....	40.2	54.5	51.0
Due to tax bases.....	40.2	54.5	51.0
Due to proposed legislation.....	0.0	0.0	0.0
Income receipts on assets.....	1.1	0.2	1.2
Current transfer receipts.....	28.6	-1.8	4.9
Current surplus of government enterprises.....	1.7	1.7	0.4

Sources: *Budget of the United States Government, Fiscal Year 2008* and the Bureau of Economic Analysis.

Chart 2. Federal Government Current Receipts



tions for government social insurance would increase \$51.0 billion after increasing \$54.5 billion, reflecting a deceleration in the tax base. Current transfer receipts would turn up, increasing \$4.9 billion after decreasing \$1.8 billion. The current surplus of government enterprises would increase \$0.4 billion after increasing \$1.7 billion.

Expenditures. Total NIPA Federal Government current expenditures would increase \$131.3 billion in fiscal year 2008 after increasing \$186.8 billion in fiscal year 2007 (table 9 and chart 3). The deceleration results from a deceleration in consumption expenditures, which would increase \$43.4 billion after increasing \$62.4 billion.

National defense consumption expenditures would decelerate, increasing \$38.2 billion after increasing \$46.3 billion. Nondefense consumption expenditures would decelerate, increasing \$5.2 billion after increasing \$16.1 billion. Current transfer payments would decelerate, increasing \$63.3 billion after increasing \$112.0 billion.

Table 9. Sources of Change in NIPA Federal Government Current Expenditures
[Billions of dollars]

	Change from preceding fiscal year		
	2006	2007	2008
Total current expenditures	171.2	186.8	131.3
Consumption expenditures.....	45.3	62.4	43.4
National defense.....	24.0	46.3	38.2
Pay raise and locality pay ¹	0.0	4.1	6.4
Other.....	24.0	42.2	31.8
Nondefense.....	21.3	16.1	5.2
Pay raise and locality pay ¹	0.0	1.7	2.8
Other.....	21.3	14.4	2.4
Current transfer payments.....	86.8	112.0	63.3
Government social benefits to persons.....	84.9	93.4	58.4
Social security.....	30.3	31.7	25.3
Medicare.....	40.3	54.9	23.6
Supplemental security income.....	2.3	2.8	1.6
Earned income and other tax credits.....	2.6	-0.2	0.5
Veterans benefits.....	1.2	4.6	2.3
Unemployment benefits.....	-0.1	0.7	2.2
Food Stamps.....	1.7	0.3	1.5
Other.....	6.8	-1.3	1.4
Government social benefits to the rest of the world.....	0.1	0.1	0.1
Grants-in-aid to state and local governments.....	1.9	12.5	3.4
Health and hospitals.....	2.3	0.5	0.0
Income support, social security, and welfare.....	-2.4	9.3	6.6
Medical care.....	-4.7	6.8	10.2
Welfare and social services.....	0.9	2.5	-1.5
Other income support.....	1.4	0.0	-2.0
Education.....	1.7	0.7	-2.9
Housing and community services.....	-0.3	2.8	0.2
Central executive, legislative, and judicial activities.....	-0.9	0.2	-0.1
Labor training and services.....	1.0	0.3	-0.5
Other.....	0.3	-1.3	0.0
Other current transfer payments to the rest of the world.....	-0.1	6.0	1.4
Federal interest paid.....	44.4	19.5	25.7
Subsidies.....	3.3	-7.1	-1.0
Agriculture subsidies.....	2.5	-6.8	-1.5
Housing subsidies.....	0.3	0.7	0.9
Other subsidies.....	0.5	-1.0	-0.4

1. Consists of pay raises and locality pay beginning in January 2007 and 2008.
Source: Bureau of Economic Analysis.

Government social benefits to persons would increase \$58.4 billion after increasing \$93.4 billion; the deceleration is mostly attributable to decelerations in Medicare and social security. Grants-in-aid to state and local governments would increase \$3.4 billion after increasing \$12.5 billion; the deceleration is mostly attributable to downturns in grants for welfare and social services and for education.

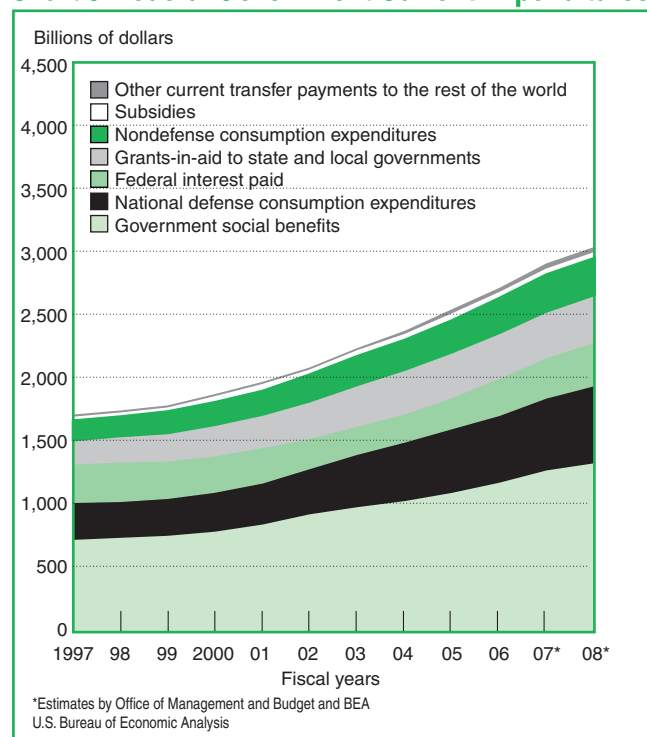
“Other current transfer payments to the rest of the world” would decelerate, increasing \$1.4 billion after increasing \$6.0 billion. Federal interest payments would accelerate, increasing \$25.7 billion after increasing \$19.5 billion. Subsidies would decrease \$1.0 billion after decreasing \$7.1 billion; the smaller decrease is attributable to agricultural subsidies.

Investment. Total Federal Government gross investment would turn down, decreasing \$4.9 billion after increasing \$10.8 billion (table 10). This downturn is mostly accounted for by a downturn in gross investment for national defense.

Other items. Capital transfer receipts would turn up and capital transfer payments would turn down. Net borrowing would turn down, decreasing \$4.5 billion after increasing \$24.2 billion.¹⁰

10. “Net lending or net borrowing (-),” the financing requirement of the government sector, is an alternative measure of the government fiscal position and is derived as net government saving plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

Chart 3. Federal Government Current Expenditures



Quarterly pattern

BEA prepares seasonally adjusted quarterly NIPA estimates of Federal Government current receipts and current expenditures that are consistent with the Federal budget (table 10).

The quarterly estimates presented here are extrapolated from the preliminary estimates for the fourth quarter of 2006, which were released on February 28, 2007. In general, because of the limited information available to estimate quarterly patterns, the estimates should be viewed as approximations that will be superseded by more reliable quarterly estimates that will be published in NIPA table 3.2.¹¹

Receipts. The NIPA estimates of current receipts reflect the quarterly pattern of estimates that would result from enacted and proposed legislation, based on the administration’s projected pattern of wages. The NIPA estimates also reflect BEA’s methodology for deriving quarterly estimates of income tax payments and of “final settlements less refunds.”¹²

Expenditures. The quarterly NIPA estimates of Federal Government current expenditures reflect the quarterly pattern that would result from enacted and proposed legislation that would adjust pay for Federal Government employees and that would provide cost-of-living increases in social security and other programs.

Net saving. Net Federal government saving decreased from -\$147.0 billion in the first quarter of 2006 to -\$147.9 billion in the fourth quarter. In the first three quarters of 2007, net saving is projected to decrease, reflecting a projected increase in current expenditures that would exceed the increase in current receipts. The increase in current expenditures stems from projected increases in government social benefits and in defense and nondefense consumption expenditures and from a step-up in current transfer payments to the rest of the world and in grants-in-aid to state and local governments.

In the fourth quarter of 2007, net saving is projected to increase as a result of a projected increase in current receipts that would exceed the increase in current expenditures. National defense consumption expenditures are projected to decelerate. Grants for income support, social security, and welfare are projected to turn down, and grants to the rest of the world are projected to show a larger decline.

In the first quarter of 2008, net Federal Government

11. The average of the fiscal year quarters may not be equal to the fiscal year value.

12. For details about the methodology, see Eugene P. Seskin, “Annual Revision of the National Income and Product Accounts,” SURVEY OF CURRENT BUSINESS 78 (August 1998): 29–31.

New Transactions in the NIPA Federal Sector

As a result of legislation enacted and litigation settled in 2006, new transactions are included in the national income and product accounts (NIPAs). These transactions affect capital transfers from the government sector to the household sector, personal current taxes, and taxes on corporate income.

Postal service retiree health benefits fund. As a result of the Postal Accountability and Enhancement Act, enacted on December 20, 2006, the Postal Service Retiree Health Benefits Fund was created. This new fund will be established with a transfer of \$23.0 billion from the Civil Service Retirement and Disability Fund and with \$3.0 billion from the Postal Service from the required escrow account that was abolished as a result of the act.

In the NIPAs, the new fund will be considered an asset of the household sector, and the \$23 billion payment from the Civil Service Retirement and Disability Fund will be considered an intrasectoral transfer because this fund is already treated as an asset in the household sector. The \$3.0 billion payment (and subsequent payments from 2007 to 2017) from the Postal Service will be treated as capital transfers from the government sector to the household sector.

Telephone excise tax refunds. According to statute, a 3-percent tax could be charged on calls for which the toll was based on the distance and the elapsed time of each call. However, the Internal Revenue Service (IRS) had contended that the tax could be charged on calls for which the toll was based on either the distance or the elapsed time. In 2004, corporations began to sue the Department of the Treasury, claiming that the tax was illegal because many individuals and businesses are now charged a flat fee rather than a rate based on distance or elapsed time. In May 2006, after a string of losses in circuit and appeals courts throughout the country, the Treasury Department declared that it would no longer collect the tax on toll calls and that it would refund about \$15 billion to taxpayers. The refunds are being paid through the Federal income tax system.

In the NIPAs, these refunds, like other income tax refunds, will be recorded as either refunds of personal current taxes or as refunds of taxes on corporate income. The total amount of the annual telephone tax refunds will be recorded in the first quarter of 2007, and the monthly and quarterly estimates will be held at that level for the rest of the year.

decrease in the third and fourth quarters; in 2008, it is projected to decrease in all the quarters. The quarterly pattern for investment primarily reflects the pattern of defense investment.

Capital transfer receipts and payments. Capital transfer receipts decreased from \$28.8 billion in the first quarter of 2006 to \$27.1 billion in the fourth quarter. In 2007, capital transfer receipts are projected to decrease in the first and second quarters and then to remain relatively unchanged in the third and fourth quarters. In 2008, capital transfer receipts are projected to increase in all the quarters.

Capital transfer payments decreased from \$72.0 billion in the first quarter of 2006 to \$69.2 billion in the fourth quarter. In 2007, capital transfer payments are projected to increase in the first three quarters and then to decrease in the fourth quarter. (For more information on NIPA capital transfers see the box “New Transactions in the NIPA Federal Sector.”)

Net borrowing. This measure decreased from -\$206.1 billion in the first quarter of 2006 to -\$152.1 billion in the fourth quarter. In 2007, net borrowing is projected to increase in the first, second, and third quarters and then to decrease in the fourth quarter. In

2008, net borrowing is projected to increase in the first quarter and then to decrease in the last three quarters.

Translation of Budget Data into a NIPA Framework

BEA uses a detailed analytical process to translate Federal budget receipts and outlays into a NIPA framework.

Receipts

Fiscal year budget data for receipts are supplemented by information on the effects of budget proposals from the Department of the Treasury’s Office of Tax Analysis and information included in the budget’s *Appendix*.¹³ These data are analyzed for their effects on the following major components of the NIPA Federal Government current receipts: Current tax receipts, contributions for government social insurance, income receipts on assets, current transfer receipts, and current surplus of government enterprises. Quarterly projections are based on the economic assumptions

13. See *Appendix: Budget of the United States Government, Fiscal Year 2008*.

from the Federal budget. When monthly and quarterly NIPA estimates are released by BEA, these initial quarterly projections of receipts are reevaluated and revised to incorporate newly available data from the Department of the Treasury.

Outlays

Fiscal year budget outlays are organized by appropriation in the Federal budget's *Appendix*. These data and supplemental data from the Office of Management and Budget are used to allocate Federal budget outlays to the following NIPA categories: Current transfer payments, interest payments, subsidies, and consumption expenditures and gross investment.¹⁴ The quarterly projections are mainly derived by interpolation from fiscal year projections.

When BEA releases its quarterly NIPA estimates, the fiscal year relationships derived from the budget data are used to allocate the spending that is detailed in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government*.¹⁵ Supplemental data are

14. Outlays by program are first adjusted for coverage (for example, for geographical adjustments) and for netting and grossing (for example, supplemental medical insurance premiums).

15. Department of the Treasury, Financial Management Service, *Monthly Treasury Statement* (Washington, DC: U.S. Government Printing Office) <www.fms.treas.gov/mts>.

also used. A detailed reconciliation of defense consumption expenditures and gross investment with outlays is prepared, using extensive financial, delivery, and other information from the Department of Defense. In order to prepare seasonally adjusted estimates of non-defense consumption expenditures and gross investment, data from the budget are used to extrapolate portions of nondefense expenditures (for durable goods, for "other nondurable goods," for "other services," and for equipment) for which there are no quarterly source data. These extrapolated estimates of expenditures incorporate quarterly data for certain expenditures, such as those for construction from the Census Bureau and for compensation from the Office of Personnel Management and the Bureau of Labor Statistics.

Updated estimates

BEA's initial quarterly projections of Federal Government receipts and expenditures will likely differ from later estimates. The initial estimates are prepared from budget data, which are based on various economic assumptions about the budget year. These estimates are then updated during the year as new laws are enacted, as actual spending occurs, as economic conditions change, and as more source data become available.