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National Budget

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The National Budget*

BY HARVEY S. CHASE

The *Annual Report on the Finances* by the secretary of the treasury was issued to congress three days ago. In this report the "estimates" of revenue and of expenditure for the coming fiscal year, which begins July 1st next, amount to very large sums. The estimates for appropriations of all kinds including the postal service, the Panama canal, the sinking fund, the reclamation fund, the Indian and other trust funds, etc., amount to \$1,108,681,777. These are the figures we see quoted in the newspaper headlines. They are, however, seriously misleading unless careful attention is given to them—as has been given in the secretary's annual report.

In the first place this total includes "the provisions for the sinking fund"—\$60,717,000.† This provision is based on requirements of law that one per cent of the public debt shall be laid aside each year as a "sinking fund" to retire the debt. Therefore, duly each year sixty millions or more *in figures* are entered in the big account-books of the nation, as an increase of the "sinking fund," but at the same time a corresponding entry is made on the other side of the ledger exactly equalizing it. No money, or securities, or assets of any tangible nature are ever set aside in a true "fund." In other words the entry is solely a "bookkeeping" one, without corresponding value in fact. The

* Extracts from an address delivered December 6, 1913.

† This amount includes not only one per cent (\$11,691,277 for 1913) of the outstanding debt, but also an allowance for interest (\$48,956,520 for 1913) on the grand total of all redemptions prior to 1913. With these additions the "sinking fund balance" at the close of the last fiscal year, June 30, 1913, had reached the astonishing total of \$869,885,041, which is, as stated above, wholly illusory and fictitious.

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amount really has no place in these estimates, if we wish to know what the *actual* expenditures of the government are likely to be.

Deducting this "sinking fund" amount, the total remaining estimates stand at \$1,047,964,777. This remainder includes the Panama canal estimates, which amount to \$26,326,985 and which may be paid from bonds if found advisable to do so. They are extraordinary in character, are "capital outlays" and should be deducted also, as is done on page 27 of the secretary's report. The postal service expenditure, \$306,953,117, is included in the above total, also the reclamation fund and many trust or special accounts which are provided for from special revenues. Many of these trust funds are highly intricate and complicated accounts and it has been the custom of the government for many years to handle them, not as "trusts," but as ordinary revenues and expenditures, meanwhile keeping accurate book-account of each trust, but not attempting to separate the money or securities belonging to each. This has appeared to be the only practicable way to handle these accounts heretofore, although it has long been acknowledged that the custom was open to serious objection, particularly when it is desired to set forth a correct budgetary statement of the government's finances as a whole. It is at present impracticable to separate these trust moneys from the actual revenues of the government itself and therefore an absolutely true picture of the national budget cannot yet be drawn.

We can approximate it, however, within reasonable limits. Deducting, now, the Panama canal and the postal service estimates, the remainder of the proposed expenditures for 1914-15 stands at \$714,684,675. From this sum the secretary's report deducts \$12,684,675 more, for the stated reason that a considerable part of the estimates for "public works" will not be expended during the year but will be expended in later years. No mention is made, however, of similar public works of previous years which may be continued this year and, if so, must be paid out of this year's revenue.

This fault, if it be a fault, is a matter of no material significance because the estimates, both of revenue and of expenditure, as now made, will be very considerably altered in the next annual report—if experience is a guide—and the final actualities of any

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fiscal year will be found quite different from the estimates which have been made in previous years in prophecy of the year under consideration.

I have prepared some figures on previous years for comparison with 1914-15 and find the following interesting results: Taking the fiscal year which ended June 30, 1913—the subject of the secretary's present report—I find that the actual revenue (ordinary) is given as \$724,111,000, round figures; while the estimate of this revenue made by the treasury in 1912 (for 1913) was \$711,000,000; and the estimate of this same revenue made the year before, in 1911 (for 1913), was \$667,000,000. The first (actual) is greater than the second by about two per cent, while the first (actual) is greater than the third by about eight and a half per cent, or fifty-seven millions of dollars, which represents the increase of actual revenue collected in 1912-13 over the estimate of that revenue made in 1910-11.

I have also compared the fiscal year 1911-12 on the same basis. The actual revenue was \$691,778,000, round figures. The estimate of it in 1911 was \$666,000,000, and the estimate of it in 1910 was \$680,000,000—again a difference of four per cent, and one and two-thirds per cent, respectively. These results, you see, are pretty good guesses on the whole and the chief guesser in one of the divisions of the treasury department deserves much credit. How he will come out next year, when the tremendous changes in revenue—caused by the new tariff, the new corporation tax and the new income tax—are all at work, remains to be disclosed.

So much for the estimates on the revenue side of the "budget." Now, for the other side—the expenditures. We have seen that the total ordinary expenditures—which include capital outlays of probably \$175,000,000 or more for lands, buildings, equipments, stores, etc.—are estimated at about \$715,000,000 for 1914-15, while the ordinary revenues are estimated at \$728,000,000, subject to variation of from two to eight per cent, according to recent years' experience.

I have compared the actual expenditure for 1913 (June 30th) with the estimates of that expenditure made in 1912 and in 1911 and they differ by twelve millions and forty-five millions respectively. For the fiscal year 1912 the expenditure estimates differed from the actual by less than one million and by twenty-

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four millions respectively, which are small percentages of the grand total.

For the current fiscal year—ending June 30, 1914—the estimates made in 1912 and in 1913 vary widely. The revenue estimate made last calendar year (1912) for this fiscal year (1914) was \$710,000,000; while the estimate for the same made this year (1913) is \$736,000,000, a difference of twenty-six millions. On the expenditure side, the estimate of 1914 made in 1912 was \$732,556,000, while as made in 1913 it is \$701,900,000. These differences when added together make a total difference of about fifty-five million dollars in the results of the fiscal transactions *as estimated*, and they change an expected deficit of \$22,556,000, for 1914 (made in 1912), into an expected surplus of \$34,100,000 for 1914, as made now. All of which goes to show how difficult it is to calculate or guess correctly concerning the revenues and the expenditures of such huge governmental machinery as our nation now comprises.

FINANCES AT THE BEGINNING OF THE NATION, 1789

Few statements are more surprising, indeed bewildering, than those drawn from comparisons of national financial transactions at the beginning of our government in 1789, with the present figures in this recent report of Secretary McAdoo. The earliest budgetary statement of our government was submitted by Alexander Hamilton, the first secretary of the treasury, on January 9, 1790, in a report to the house of representatives, entitled *A Report on Public Credit*. This report included a *General Estimate for the Services of the Current Year*, as follows:

FIRST BUDGET STATEMENT

<i>Estimate of Expenditure:</i>	
Civil list	\$254,892.73
War department	155,537.72
Military pensions	96,979.72
Total	<u>\$507,410.17</u>
“Provisions for the foreign department and other arrangements”	<u>600,000.00</u>

Included in the “civil list” above are the “requirements for

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the treasury department"—\$25,900; of which the secretary's salary is stated as \$3,500, and that of the "assistant of the secretary," \$1,500.

THE SECOND BUDGET STATEMENT

On January 2, 1795, Secretary Hamilton submitted a report to the house entitled "*Public Credit, No. 2,*" and in this he gives a *Comparative View of Annual Credit, Revenue and Expenditure* based on the actual receipts for the year 1793, together with estimated additional revenues for 1795, *viz.*:

"CURRENT REVENUE"

"Total permanent revenue"	\$4,692,673.83
"Temporary revenue" (special duties, etc.)	1,859,626.91
Total	\$6,552,300.74

"CURRENT EXPENDITURE"

Interest on foreign and domestic debts	\$3,143,743.18
Expenses of civil department	475,249.53
Expenses of military department	1,311,975.29
Pensions	85,357.04
Expenses of naval department	441,508.80
Expenses of lighthouses, etc.	24,000.00
Total	\$5,481,843.84

Excess of revenue beyond expenditure \$1,070,456.90

This excess he proposed to use:

For sinking funds	608,134.64
For yearly installments on foreign loans	200,000.00
For increased interest and arrears	120,130.12

Total \$ 928,264.76

Leaving a net excess of revenue \$ 142,192.14

THE THIRD BUDGET STATEMENT

This was prepared by Albert Gallatin, secretary of the treasury, under an act approved May 10, 1800. The requirements of this act have continued to this day, and the treasury's *Annual Report on the Finances* has followed the original form laid down by Gallatin in 1801. His estimates of revenue and of expenditure for the fiscal year (1802) were as follows:

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"REPORT ON THE FINANCES"

Dated December 18, 1801,

By Albert Gallatin, Secretary of the Treasury.

ESTIMATES FOR 1802

Current Revenue

Duties	\$ 9,500,000.00
Internal duties	650,000.00
Proceeds of sales of public lands	400,000.00
Duties on postage	50,000.00
	<hr/>
	\$10,600,000.00
"Temporary revenues"	3,000,000.00
	<hr/>
	<u>\$13,600,000.00</u>

Current Expenditure

Estimates for appropriations (other than debt), viz.:	
Civil	\$ 780,000.00
Intercourse with foreign nations	200,000.00
Military establishment	1,420,000.00
Navy department	1,100,000.00
	<hr/>
Total	\$ 3,500,000.00
Demands of treaties with Great Britain and France	3,000,000.00
	<hr/>
	<u>\$ 6,500,000.00</u>
Excess of revenue "available for payment of interest and reduction of debt"	
Savings of expenses by effected reductions from war prices	\$ 7,100,000.00
	200,000.00
	<hr/>
Total available for debt purposes	\$ 7,300,000.00
Interest and annual payments on Holland debt, etc., as estimated	\$ 7,100,000.00
	<hr/>
Final surplus (if "savings" are correct)	\$ 200,000.00

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Comparison of Appropriations of 1790 with those of 1914-15

APPROPRIATIONS

	1790	1914-15
Interest on debt	\$1,413,043.23	\$ 22,000,000.00
Reduction of debt	1,453,549.15	(1)
Pensions	96,979.72	169,150,000.00
Military	194,744.72	105,937,544.26
Naval	(2)	139,831,953.53
Congress, legislative	203,167.28	(3) 6,814,772.75
Executive		(4) 29,035,518.20
Judicial		1,242,110.00
Agriculture	} "Civil List" 234,091.86	19,061,332.00
Library and garden		(5) 718,558.75
Ministers abroad	80,000.00	(6) 4,447,042.66
Indian affairs	20,000.00	(7) 17,608,865.06
Public works	(8)	(9) 69,955,107.53
"Permanent annual," other than Indians, sinking fund and interest		(10) 40,179,407.00
Lighthouses	49,252.52	1,699,530.00
Census	21,850.00	1,709,720.00
Miscellaneous	78,485.20	(11) 84,393,213.28
Totals	\$3,845,532.68	(12) \$714,684,675.02

- (1) "Sinking fund" omitted, as it is merely a book account of no actual value.
- (2) "Naval" of 1789 was included in "military."
- (3) Legislative, 1915, exclusive of Congressional Library and Botanic Garden.
- (4) Omitting "census" and portion of "lighthouses" (below).
- (5) Usually included with legislative as they are under control of congress.
- (6) "Foreign intercourse."
- (7) Including "Indian trust funds," "proceeds of labor," etc.
- (8) Included in "civil list" and in "military."
- (9) Excluding "lighthouses," given below.
- (10) Excluding "Indian trust funds," etc.; also sinking fund and interest.
- (11) Includes much which should be included in "civil list," military, etc., above.
- (12) Excluding Panama canal, postal service and sinking fund.

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The totals are startling in their differences; 1790 being only a little over one-half of one per cent of the total for 1914-15.

Comparison of 1802 with 1915

Ordinary estimates of expenditure by Albert Gallatin for the year 1802	\$ 3,584,147.18
Estimates for interest and debt payments	7,100,000.00
Special expenditure in fulfilling treaties	3,000,000.00
Total for 1802	\$ 13,684,147.18
Total for 1914-15, as exhibited above	\$714,684,675.02

A REAL "BUDGET"

The United States government has never had a real budgetary statement of its prospective expenditures and revenues in detail. It has had rough estimates of its revenues and very detailed estimates of its expenditures, but these have never been presented to congress by the secretary of the treasury or by the president in the form of a true budget. The reasons for this are many and complicated, one important reason being that our revenue laws heretofore have looked to the "protection" of manufacturing and industry rather than to revenue requirements solely. Now that our tariff laws have been reduced and we have embarked upon the troubled sea of direct income taxation, the necessity for true budget procedure will become more and more emphatic with each year.

It is time, therefore, to get a clear understanding of what "budget procedure" is and to comprehend how it must be applied in our government's finances. To make these difficult matters as plain as I am able to make them, I refer to the estimates for the current year, which ends June 30th next.

Please note the total of *estimates* is \$1,110,000,000 in round figures. You should recognize the contrast between the amounts under the appropriation bills and the same totals analyzed differently (see page 94). Note the contrast between "military functions" \$452,000,000 (including naval and pensions) and "civil functions" (omitting postal service)—about \$207,000,000.

This contrast—"military" about two and a quarter times as much as "civil"—is sufficiently surprising, but there are still other factors. We may consider that the expenditures under the head of "general functions" apply to both civil and military

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and that they correspond to "overhead" or "general management expense and fixed charges" in a business enterprise. A considerable part of these "general function" expenses is due to public debts contracted for military and naval requirements heretofore, so that the true charge to "military," as against "civil," should be increased by thirteen millions for interest and by thirty-seven millions or more for real sinking funds, supposing that the debts are to be actually paid at maturity. Charging these to military, the remaining costs of "overhead" may be considered as applying equally to civil and to military—one-half to each—or about fifty millions more to be added to military costs in this country (always including "naval" and "pensions"). The grand total of all these military items is about five hundred and fifty millions of dollars per annum, and this is for military expenditures in a time of peace. In other words, out of a grand total estimate of about eight hundred million dollars* for all expenditure of the current year (excluding postal service and Panama canal, but including true "sinking funds") the requirements for military purposes, past and present, amounted to about seventy per cent or \$550,000,000.

The mere announcement of these figures is sufficient to arrest the attention of every intelligent man and woman in the country. Such figures cannot be unearthed by a simple reading of our present appropriation bills or from our present method of stating our government accounts in the annual reports of the treasury or elsewhere. They can be found only by careful analysis and re-analysis of the proposed expenditures, separating *civil* matters from *military* matters and finally aggregating the totals. When this is done, a reasonably accurate picture of our financial requirements and of the various purposes for which expenditures are proposed, can be had. This result is one of the important results which will flow from the adoption of real budgetary analyses and statements for the government as a whole; as well as for each department and division of it in detail.

It is evident that the public ought to be provided with such analyses; that congress should have them; that the president and the executive departments need them most of all. No gen-

* Reduced in the new estimate for 1914, made recently, by about thirty millions of dollars, or to \$770,000,000—including sinking fund, \$80,000,000.

eral financial policy can be intelligently entered upon—either for raising revenue or for making appropriations—until the details of preparing and aggregating estimates are planned in this manner and correctly segregated as to *purposes* or *functions* of government. When this is done regularly, and when sufficient time has elapsed for safe comparisons with the experiences of prior years to be drawn, then the president of this republic, when he reports to congress upon the “state of the Union,” will be enabled to foresee with reasonable accuracy what revenue will be available and to conclude how this revenue should best be expended. He must give due prominence to fixed charges which cannot be avoided; such as interest, trust funds, provision for public debt redemption, etc. Having allowed for all these permanent charges and for other unavoidable expenditure, the executive might then recommend to congress and the people how, in his judgment, the remaining revenue should be expended most advantageously, and in what general proportions this remaining balance of revenue should be divided between the functions of government, up to that point unprovided for. Here he could well discuss at some length the advisability of spending more for some purposes, like promotion of agriculture or commerce or education, while emphasizing the necessity for retrenchment in other expenditures, if a deficit of revenue is not to be faced. Then, if it is evident that the revenues, as estimated, will not provide for the expenditures which are deemed unavoidable or necessary, the executive would point out what this deficiency of revenue is likely to be and would call the attention of congress to the importance of finding new sources of revenue to meet these conditions.

By such means students of government and the intelligent public would promptly come to understand the financial conditions of the nation; and then questions relating to revenue, as well as to expenditure, would assume their rightful importance and have a most salutary effect upon the average citizen, as well as upon our law-making and our executive departments.

If this diagnosis is correct, we may well wish that the day of the *true budget* will soon dawn.

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BUDGET OF THE UNITED STATES OF AMERICA

CLASSIFIED BY PURPOSES OF EXPENDITURE, FUNCTIONS OR ACTIVITIES

I. MILITARY PURPOSES. (INCLUDING NAVAL.)	
Defense by land	\$ 102,556,165
Defense by sea	146,615,092
Pensions, retirements, veterans' homes, etc.	203,394,808
	\$ 452,566,065
Interest and sinking-fund provisions relating to Public Debt for military purposes	50,000,000
TOTAL, MILITARY PURPOSES	502,566,065
 2. CIVIL PURPOSES.	
Providing facilities for transportation:	
Panama Canal	30,174,432
Rivers and harbors	56,766,992
Other	29,903,114
Total, facilities for transportation	\$ 116,844,538
 Promotion of welfare of—	
Agriculture, forestry, etc.	37,372,040
Indians, and other Wards of the Nation	14,018,907
Public health	7,817,342
Education, recreation, etc.	5,736,545
Medium of exchange, coinage, currency, etc.	4,584,555
Laboring classes, Dept. of Labor, etc.	4,372,805
Foreign relations, etc.	4,341,688
Commerce and banking regulation	3,023,659
Defectives, dependents, etc.	2,622,487
Patents and copyrights	2,242,691
Meteorological research, etc.	1,712,490
Trading, mining, etc.	930,439
Census, etc.	765,060
Standards of measurement, etc.	612,395
TOTAL, CIVIL PURPOSES *	\$ 206,997,641
 Postal service	 \$ 276,983,944
 3. GENERAL PURPOSES ("Overhead," fixed charges, and management).	
Executive:	
General direction and control:	
The Executive Office	199,040
General accounting and auditing (Treasury)	1,947,010
Civil Service and other commissions	690,075
Total, "general direction," etc.	\$ 2,826,125

* Excluding "postal service payable from postal revenues."

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Departmental administration	20,813,892
Administration of the finances:	
Interest on public debt	22,860,000
Sinking-fund provisions	60,685,000
Other	17,945,273
Operation and maintenance of offices, buildings, grounds, etc.	21,265,902
Supplies, purchased and manufactured	553,527
Reference purposes, Congressional Library	593,300
Distribution of documents	251,424
Other	33,300
Detection of crimes, legal advice, etc.	3,858,890
	\$ 151,696,633
Legislative:	
The Senate, House, Joint Committees, etc.	8,660,366
Judicial:	
Supreme Court and other U. S. courts	5,741,313
	\$ 166,098,312
Less: Interest and sinking-fund for military purposes, included in "I" above	50,000,000
Net total, general purposes	\$ 116,098,312
4. CONTRIBUTIONS TO LOCAL GOVERNMENT.	
District of Columbia and Territories	\$ 7,978,410
Total, all purposes	\$1,110,624,372

* Excluding "postal service payable from postal revenues."