CHAPTER 3

COVERAGE OF THE BUDGET

In the private sector of the economy, the efficient allocation of resources is best performed in a decentralized fashion by the disciplines of the marketplace. In the public sector, however, it is the budget process which performs the resource allocation function.

To work well, the governmental budget process should encompass the full scope of programs and transactions that are within the Federal sector and not subject to the economic disciplines of the marketplace. This, however, poses practical questions as to precisely what outlays and receipts should be in *the budget* of the Federal Government. The answer to this question is not always as obvious as it may seem: the boundaries of the Federal establishment are sometimes difficult to draw.

Providing for national security or collecting census data are obviously activities of the Federal Government which should clearly be in "the budget." It is equally clear that the housewife's purchase of groceries or a private corporation's borrowing from a commercial bank represent transactions outside the Federal sector. Between these obvious extremes, however, are a wide variety of activities ranging from those clearly within the Federal domain to those clearly outside the Federal establishment. Should the activities of enterprises owned jointly by the Government and the private sector of the economy be included in the budget? What about clearly Government agencies, such as the Federal Reserve System, which are not by law (or by logic) subject to the standard annual congressional and executive branch budgetary disciplines? What about privately owned agencies which were established by the Federal Government in pursuit of public policy objectives but from which all government capital has now been withdrawn, such as the Federal home loan banks or Federal land banks? It is difficult to draw a boundary line in some of these cases without having programs included in the budget that do not seem greatly different from other excluded items.

Even for programs clearly within the scope of government, questions remain about *how* to include their transactions in the budget. For instance, are seigniorage revenues (coinage profits) a receipt, or a means of financing a deficit? Should the budget itself concentrate on current account transactions, with outlays for durable assets or recoverable loans handled in a separate capital budget? A number of difficult-to-classify transactions are discussed in this chapter, and others in chapters which follow.