



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

July 24, 1980

TO: Federal Open Market Committee

FROM: Murray Altmann *M.A.*

The attached memorandum was prepared in response to a question raised by President Balles at the FOMC meeting on July 9, 1980.

Attachment

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date July 18, 1980

To Mr. James L. Kichline

Subject: Comparison of High Employ-

From Government Finance Section  
(Messrs. Fralick & Cohen)

ment Budget Estimates

The high employment budget (HEB), as estimated by the FRB staff, measures discretionary changes in fiscal policy by excluding from the budget totals the effect of cyclically induced changes in receipts and outlays. In constructing this measure, the Council of Economic Advisers estimates that high employment is consistent with a 5.1 percent unemployment rate.

Although this estimate of the high-employment unemployment rate has received much support, both inside and outside the federal government, its numerical value is still the subject of disagreement. Accordingly, this memorandum analyzes the impact of a 1 percentage point rise in the benchmark rate on the high employment budget. While the estimates presented below show that the level of the HEB is affected significantly by changes in the benchmark rate, they also indicate that period-to-period changes in the HEB are altered little. This result is important because the change in the high employment budget generally is recognized as the best measure of discretionary shifts in fiscal policy.

The following table illustrates this point.

High Employment Budget Comparison  
(Billions of dollars)

Calendar Year	Level of Surplus(+)/Deficit(-)		Change in Surplus(+)/Deficit(-)	
	H.E.		H.E.	
	Unemployment Rate 5.1% <u>1/</u>	Unemployment Rate 6.1%	Unemployment Rate 5.1% <u>1/</u>	Unemployment Rate 6.1%
1978	-11.5	-33.0	+7.8	+5.3
1979	+7.7	-16.0	+19.2	+17.0
1980	+18.6	-7.3	+10.9	+8.7
1981	+38.8	+8.6	+20.2	+15.9

1/ July Greenbook.

As can be seen, an increase in the benchmark rate increases (decreases) the level of the deficit (surplus) by between \$20 and \$30 billion. This is mainly because the increase in the unemployment rate lowers potential GNP, and thus lowers

TO: Mr. James L. Kichline

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high employment receipts. In addition, certain high employment expenditures--such as income security payments--also are affected, although to a lesser degree. In contrast to these large differences in the level of the high employment budget, the differences in the year-over-year changes are relatively small, with both estimates showing a substantial \$15 to \$20 billion shift toward restraint in calendar year 1981.