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4. ARRANGEMENT OF REPORT

For readers interested only in the bare bones of the committee's findings and recommendations a skeleton summary has been provided in chapter I. The committee, however, felt it necessary to provide as a background for its recommendations, first, a statement of the considerations which have guided the committee in its work (ch. III); secondly, a brief description of the present status of national accounting in the United States and abroad (ch. IV); thirdly, a condensed description of the uses of a system of national accounts and of the form of an integrated system which the committee regards as the long-range goal (ch. V); fourthly, a more detailed discussion of a number of conceptual and practical special problems of the national income and product accounts (chs. VI to VIII) and by the breakdowns of the accounts by regions (ch. IX) and by size of income (ch. X); fifthly, a consideration, necessarily very selective, of the statistical adequacy of the national income and product estimates (ch. XI); and sixthly, a discussion of the other chief components of a system of national accounts and of their integration with the national income and products accounts, namely, flow-of-funds statements (ch. XII), input-output tables (ch. XIII) and balance sheets (ch. XIV).

The appendixes contain supporting documents, and tables and a list of detailed technical suggestions for improvement in the national income and product accounts and the primary data underlying them which was submitted to the committee by George Jaszi, Chief of the National Income Division (appendix E).

CHAPTER III. GUIDING CONSIDERATIONS

At the outset of the substantive part of the report it appears advisable to summarize briefly the considerations which have guided the committee in the conduct of its study in the framing of its report, and in the selection of its recommendations. Such an explicit statement of the considerations underlying the report will, it is hoped, assist readers in putting the specific recommendations to be found in the remainder of the report into their appropriate framework. Some of these considerations will be discussed in more detail in later sections; for others the brief mention in this section will have to suffice.

(a) There is need now for a review of the national accounts, particularly the national income and product accounts. Even if the present version of the national income and products accounts, which has remained virtually unchanged since 1947, were as nearly perfect as such estimates could be at the time the system was set up, there would be ample scope now for a thorough examination.

First, since 1947 an important branch of the national accounts, the flow-of-funds statement, has been newly developed and another one, the input-output table, has been considerably expanded but later dropped. Although official estimates of national and sector balance sheets are still missing, with the exception of agriculture, enough work has been done in this field during the last decade by individual students that this aspect of the national accounts can no longer be regarded as existing in the imagination only. The development of these new branches of national accounting poses an integration problem that did not exist in 1947.

Secondly, considerable progress has been made in clarifying the conceptual basis of the national accounts and in settling some of the problems, though others remain as intractable as ever. Fortunately the state of the discussion has been summarized in a series of papers prepared for a meeting of the Conference in Research in Income and Wealth held in the fall of 1955.³

Thirdly, some important sectors of the national accounts, particularly saving, inventories, and capital expenditures, have been thoroughly investigated recently by consultant committees organized by the Federal Reserve Board.⁴ Their operation has permitted the committee somewhat to limit the scope of its own activities.

Finally, considerable progress in the field of national accounting has been made in several foreign countries and in international organizations. Thus there now exists abroad an accumulated body of experience from which we may well profit, even though our own system of national accounts is still the equal of that of any other country if considered as a whole.

The advent of electronic accounting, which promises to spread rapidly to most large business and Government organizations, poses a whole new set of problems. To what extent the potentialities of electronic accounting will be utilized for the national accounts is one of the most important questions in this field with which economists and statisticians will have to deal in the near future.

(b) National accounts have acquired increasing importance for economic policy, for business, for labor, and for economic science during the last two decades. Their impact may be expected to grow as the potentialities as well as the limitations of national accounts become even better known. As the burden put on national accounts by different groups of users increases, so must the reliability and the flexibility of the system.

(c) The methods of business accounting provide a point of departure for a system of national accounts in an economy in which, as is the case in the United States, business enterprises account for a decisive part of economic activity. However, national accounting, particularly in the consumer and Government sectors, need not follow the business accounting conventions of the day in every detail or even in all major features. National accounting is entirely within its rights in selecting among alternative methods used by business accounting the one which appears most adequate for its primary purpose—to provide a systematic record of economically relevant facts. National accounting may even go further and, where economic analysis requires, adopt methods which differ from all alternatives in use in business accounting.

(d) The national accounts are best regarded as an integrated framework for the systematic organization and presentation of economic information that can be expressed in dollars. Their main value is that of a tool of economic policy, possibly the most important factual tool that economic analysts and policymakers in Government, business, labor, and universities now possess.

³ The proceedings of this conference which were available to the committee in mimeographed form will be published early in 1958 by the National Bureau of Economic Research as vol. 22 of *Studies in Income and Wealth*.

⁴ Reports of Federal Reserve Consultant Committee on Economic Statistics, hearings before the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report, 84th Cong., 1st sess. (1955).

(e) The development of an integrated system of national accounts—encompassing Government budgets, national income, and products accounts; flow-of-funds statements; the balance of payments; an input-output table, and a national balance sheet—should be a goal of all national accounting work. Although this integrated system can only be developed by steps, can be expected to be completed only many years from now and will not cover every detail of all its components, it should remain a declared and acknowledged goal nevertheless.

(f) Flexibility is a prime requisite of an efficient system of national accounts because of the variety of important requirements of different groups of users of the national accounts, and of the necessarily conventional and sometimes arbitrary nature of some of the definitions and procedures adopted. The means that the system must be so set up that it provides alternative figures where there is a reasonable demand for them. The treatment of expenditures on consumer durable as consumption or saving, the use of either original cost or replacement cost depreciation, the inclusion of capital gains and losses in personal income, the separation of imputed items, and the elimination of seasonal variations are examples of situations where estimates on different bases should be available to users.

(g) While recognizing that the specific form of our system of national accounts will always be influenced by its origins and by the peculiarities of the primary data available in this country, we should conform to international usage wherever this can be done without substantially reducing the value of the system for domestic use and where the obstacle to conformity lies primarily in features of our system which may be explained by historical accident. Such an attempt to conform with international usage should not, and need not, prevent us from trying to keep the United States system of national accounts at the top in international comparison with respect to conceptual structure, detail, reliability and up-to-dateness.

(h) The committee has tried to provide in this report a roadmap for national accounting during the next 5 to 10 years, rather than to conduct an item-by-item audit of the present estimates, particularly the national income and product accounts of the National Income Division. This decision is the result both of choice and expediency. The committee was unanimous in its conviction that in the present situation the development of an integrated long-range program was more important than a detailed examination of the adequacy and the reliability of the estimates now available. This conviction was strengthened by the impression—gained admittedly without thorough item-by-item study but reflecting many years' experience in the field by most of the members—that these estimates were by and large as good as the sources of information now available permitted so that a detailed audit was not likely to reveal shortcomings not already known to the estimators or to careful users of the figures. But even if the committee had rated the need of a detailed audit of our present national accounts higher, it could not have undertaken the task. The conduct of such an audit—apart from calling for a different committee membership—would have required a much longer period of study than was assigned to the committee; would have presupposed the employment of a substantial full-time staff which the committee did not have; and, in view of the staff shortage of the

National Income Division, would have seriously interfered with the preparation of the current national income and product estimates.

(i) The report is necessarily selective. The national accounts, or even the national income and products accounts only, cover such an immense territory in terms of economic statistics and of conceptual problems that it would have been impossible for the committee—whose members could devote to this work only part of their time during a period of half a year—to investigate every aspect of the accounts. It may suffice to recall that two of the Federal Reserve Board's consultant committees—those on saving and inventories—spent approximately as much time on their two fields which constitute only relatively small sectors of the national accounts, as this committee could expend on its entire survey. In selecting the subjects on which the committee has concentrated its attention, the committee has, of course, selected aspects of the national accounts which it regarded as particularly important and as offering the chance of substantial improvement during the next decade. The specialized knowledge and experience which some of the members have in specific fields of national accounts also had some influence in guiding the committee's choice. This report, it needs to be emphasized, thus is not a treatise on the national accounts.

(j) The review of the national accounts is better regarded as a continuous, or at least a periodic, rather than a one-time affair. The requirements of the different groups of users as well as the possibility of tapping new sources of data change with sufficient rapidity to call for some arrangement which will insure that the actual form and content of the accounts is at all times sufficiently responsive to the needs of the users and is making full use of the potentialities of the data. Continuous review is also indicated by the unavoidable monopoly position which the Federal Government has acquired in the field of national accounting as the subject has become too large for the sporadic efforts of individual students or economic research organizations.

(k) Although it is making a large number of suggestions for extending and improving our national accounts, the committee wants to state as clearly and emphatically as possible that these suggestions are not a reflection on the competence or the diligence of the organizations that have been working in this field, particularly the National Income Division of the Office of Business Economics in the Department of Commerce. The experts in these organizations are well aware of most of the shortcomings of the present accounts, both conceptual and statistical, and would probably support a large proportion of the recommendations made in this report. The comprehensive paper by George Jaszi on *The Conceptual Basis of the Accounts: A Reexamination* in volume 22 of the *Studies in Income and Wealth* has been extremely helpful to the committee in its consideration of the many problems which we discuss.

(l) The committee is fully aware that the recommendations it is making will cost money. Even the present scope of national accounting work within the Federal Government could not be maintained for long unless additional funds were forthcoming, since the present level of output in this field has been possible only at the cost of "undermaintenance," a process which cannot be continued indefi-

nately. A decision clearly must be reached in the not too distant future by the administration and by the Congress regarding the importance of an adequate system of national accounts for Government, for business, agriculture, and labor, and for economic research purposes. If the importance and potentialities of such a system are anywhere near what the committee believes them to be after a fairly exhaustive survey of the uses that are or could be made of the national accounts, a substantial increase in the funds spent on national accounting work by the Federal Government is required and is fully justified even under the strictest requirements of economy compatible with efficiency in Government. As in other fields one gets only what one pays for.

If the administration and the Congress want to continue the process of slow but continuous reduction in the resources devoted within the Government to national accounting work, that has taken place during the last 5 years or so, they should face the fact that it will be impossible to carry out any of the more important improvements in the national accounts suggested in this report. Even the present scope of the work, which admittedly is not unsatisfactory, has been made possible only by neglect of repair and maintenance in the national income and product accounts, and by reliance on funds provided by semi-independent agencies (like the Federal Reserve Board), by nonrecurring special defense projects or by private research agencies. It is unreasonable to expect that the expansion and development and particularly the integration of our system of national accounts can be financed in the same way for another decade. Unless the allocation of Federal funds to the field of national accounting is considerably stepped up within the next few years there is serious danger that the scope of the work will have to be narrowed considerably or that its quality will deteriorate, and that the United States will lose the leadership in this field which it has held during the 1930's and 1940's and is still holding at the moment. It is the users of the national income and product accounts and related statistics in business, labor, agriculture, and Government who would be the primary sufferers from such a development and who would suffer from it in terms of less reliable and less adequate data on which to base their policy decisions than are available now or could be available to them with relatively modest additional effort and expense.

CHAPTER IV. PRESENT STATUS OF NATIONAL ACCOUNTS

This very brief review of the present status of national accounting in the United States and abroad is intended only as a means of providing readers not familiar with the field with a minimum of background information that should be useful in understanding the discussion in the chapters that follow. The description is necessarily more detailed for the United States than for foreign countries.

1. UNITED STATES OF AMERICA

The chief characteristic of national accounting work in the United States, particularly in comparison with other countries—apart from the richness of detail—is decentralization.