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2. The Government Sector
B. A Reconciliation of Alternative Budget Concepts

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THE purpose of this paper is to catalogue and explain the differences among three statements of federal government receipts and expenditures. These are (1) the official Budget of the United States Government, (2) the Budget Bureau's statement of Receipts From and Payments to the Public, and (3) the estimates of federal receipts and expenditures published by the Office of Business Economics of the Department of Commerce. It is convenient to refer to these as the conventional, cash, and Commerce statements, respectively.

The budget, or conventional statement, is the best known of the three. It comprises the transactions of the so-called "federal funds," as distinct from the trust funds, funds being governmental accounting entities. It is most valuable for the detailed information it provides by agency and by program. The totals of receipts and expenditures and the surplus or deficit are widely publicized but, because the budget is not a comprehensive statement of the government's transactions, they have little value for aggregative economic analysis.

The Budget Bureau's cash statement is best described by listing

This analysis would not have been possible without the help of Joseph Rosenthal of the National Income Division, Department of Commerce, and Samuel M. Cohn and Murray L. Weidenbaum of the Bureau of the Budget. Mr. Rosenthal, who prepares the government sector account in the national income statistics, was extremely generous with his knowledge, his time, and his worksheets. Mr. Cohn of the Budget Bureau's Office of Budget Review and his assistant, Mr. Weidenbaum, who prepares the statement of cash receipts from and payments to the public, explained many intricacies of the conventional budget and the cash statement. Other persons in the Commerce Department, Budget Bureau, Treasury Department, and Commodity Credit Corporation were also helpful in answering questions about the accounting concepts and estimating procedures of their agencies. If I have misinterpreted any of the information received informally or obtained from official publications, these persons are not responsible.

Gerhard Colm encouraged me to undertake this analysis and insisted that I finish it.

the main steps in its preparation. Trust fund receipts and expenditures are added to the conventional statement, intra-governmental transactions are eliminated in equal amounts from both sides of the expanded account, and the few expenditures included on an accrual basis in the conventional statement are replaced by cash figures. The difference between the resulting totals of receipts and expenditures measures borrowing from the public or debt redemption to the public (after allowance for changes in cash balances and some minor adjustments). This concept of federal receipts and expenditures is therefore important for debt management and monetary policy.

The Commerce statement of federal receipts and expenditures is an integral part of the national income accounting structure. It is a part of the government account, which includes also the transactions of state and local governments. It differs conceptually from the Budget Bureau's cash statement principally in that many transactions are presented on an accrual basis and in that loans and loan repayments are excluded from expenditures and receipts. Government lending, just like lending by individuals, is treated as a form of saving rather than as an expenditure. In most aggregative economic models, the national income accounting concepts of sector receipts and expenditures, including those of the federal government, are used as building blocks. The Commerce statement of federal transactions is also useful in analyses of saving and investment. The surplus (saving) or deficit (dissaving) in the national income accounting government account, in combination with personal and business saving, equals investment. Therefore, the surplus or deficit in the Commerce statement of federal receipts and expenditures is appropriate for consideration in any savings and investment analysis that accepts the national income accounting definitions of personal and business saving and of investment.[1]

[1] These three are not all of the statements of federal receipts and expenditures. At least three others are in existence.

The Treasury Department publishes a cash statement, Treasury Cash Income and Outgo, which is very similar to the Budget Bureau's cash statement. Of the two, the Budget Bureau's statement was selected for inclusion in this analysis because it can be more easily and accurately reconciled with the conventional statement.

Had estimates been available, it would have been interesting to include the federal government's nonfinancial receipts and expenditures according to Morris A. Copeland's moneyflows accounting concepts. In this system nonfinancial receipts and expenditures are recorded gross, whereas there is a considerable degree of netting in the statements discussed in this

The major conceptual differences among these three statements are rather widely recognized and understood among economists. There is less understanding of the minor differences which also exist and of the accounting definitions of difference items. No really detailed itemization of all differences has been available. This paper is an attempt to supply as complete a list as possible in the form of a reconciliation for a sample year.

The year chosen was the fiscal year 1953—i.e. the year ending June 30, 1953. A fiscal year was preferred to a calendar year because far more detail on the government's transactions is available by fiscal years than by calendar years. Such basic sources as the budget document, the Combined Statement of Receipts, Expenditures, and Balances of the United States Government, the Annual Report of the Secretary of the Treasury and the Annual Report of the Commissioner of Internal Revenue refer to fiscal years. The conventional statement is prepared in full detail only for fiscal years and the Budget Bureau's mimeographed supporting tables for the cash statement, showing precisely how it is derived from the conventional statement, are also prepared only for fiscal years.

There was one inconvenience in using a fiscal year. Strictly speaking, there is no such thing as a fiscal year Commerce statement. The Commerce Department prepares estimates of total federal receipts and expenditures on a calendar-year basis and on a seasonally adjusted quarterly basis.[2] The nearest approximation to fiscal-year figures results from averaging quarterly figures. But the seasonal adjustments and the various smoothing adjustments which affect the quarterly figures, although they wash out over a calendar year, do not wash out over a fiscal year.

The way in which this difficulty was surmounted was by building up a fiscal-year Commerce statement largely through the reconciliation process itself. The precise manner in which the various components were obtained will become clear from the discussion of the reconciliation tables. In general, published fiscal-year fig-

paper. In December 1955, too late for consideration in this paper, the Board of Governors of the Federal Reserve System published moneyflows accounts for recent years in *Flow of Funds in the United States, 1939-1953*.

The Bureau of the Census publishes estimates of federal receipts and expenditures that are consistent with its statistics on the receipts and expenditures of state and local governments.

[2] The calendar-year statement is published in full. The quarterly estimates are published only for certain types of receipt and expenditure.

ures were used insofar as they were available and conceptually satisfactory, while fiscal-year estimates of other components were derived from the basic preseasonal-adjustment worksheets of the Commerce Department. The total "Commerce statement" receipts and expenditures thus obtained were not far from the averages of the quarterly totals at seasonally adjusted annual rates (see table 1).

In building up the fiscal-year Commerce statement, I adhered as rigidly as possibly to the national income accounting concepts of federal receipts and expenditures, but did not necessarily follow the Commerce Department's estimating procedures. To have

TABLE 1

Federal Receipts and Expenditures,
Classified as in Commerce Statement, Fiscal Year 1953
(*millions of dollars*)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Receipts:			
Personal taxes and nontaxes	30,831	30,850	31,489
Corporate profits taxes	21,419	21,419	20,566
Indirect business taxes and nontaxes	10,884	10,914	10,919
Contributions for social insurance	274	6,825	7,545
Other	1,187	1,273	
Total	64,593	71,283	70,519[a]
Seasonal adjustments, smoothing adjustments, errors and omissions			174
Average of quarterly totals at seasonally adjusted annual rates			70,693[b]
Expenditures:			
Purchases of goods and services	58,347	57,873	57,758
Transfer payments	4,226	9,331	9,425
Grants-in-aid to state and local governments	2,724	2,708	2,724
Net interest paid	6,464	4,428	4,950
Subsidies less current surplus of government enterprises	961	729	777
Other	1,260	1,485	
Total	73,982	76,554	75,634[a]
Seasonal adjustments, smoothing adjustments, errors and omissions			−86
Average of quarterly totals at seasonally adjusted annual rates			75,548[b]

[a] As estimated in this study.

[b] As implied in calendar year 1952 and 1953 estimates published in *National Income Supplement, 1954, Survey of Current Business*, Dept. of Commerce.

Note: Components may not add to totals because of rounding.

done so would have been a rather roundabout process, since the Commerce Department makes use of various calendar-year and quarterly data sources, some of which are less detailed than available fiscal-year sources.

With regard to a few quantitatively minor items shown in the reconciliation tables, there was a difference between their conceptual treatment in the national income accounts and the actual statistical treatment that follows from the Commerce Department's methodology. In such cases I have shown and discussed the conceptual treatment. Disregarding these small divergences between conceptual and statistical treatments had the advantage of simplifying the discussion, though it also results in a somewhat less than accurate account of the composition of federal receipts and expenditures as estimated by the Commerce Department.

Fiscal 1953 was used because this was the latest fiscal year for which data were available at the time this analysis was begun. Fiscal 1954 would have been a more interesting year for comparing the cash and Commerce statements. In fiscal 1953 the totals and the deficits in these two statements were very similar, whereas in fiscal 1954 the cash statement was virtually in balance, while the Commerce statement had a deficit of about $9 billion.

Strictly speaking, this analysis applies *only* to the fiscal year 1953. Because changes are made in governmental accounting practices from year to year, no sample year can be precisely representative of all years. To be even more specific, the versions of the 1953 conventional and cash statements used in this analysis are those which were originally published in the budget document submitting the President's estimates for 1955. Since that time revisions have been made in both statements to accord with subsequent changes in accounting practices. Some of these changes are mentioned in the text, but the figures in the reconciliation tables are consistent with the 1953 conventional and cash statements as originally published.

As noted above, the fiscal year Commerce statement used in the reconciliation is more or less improvised. However, the quarterly totals of receipts and expenditures at seasonally adjusted annual rates, whose averages are shown in Table 1, were furnished by the Commerce Department and are consistent with the calendar-year totals published in *National Income Supplement, 1954, Survey of Current Business.*

The general approach used in the reconciliation was one of lining up the receipts and expenditures sides of the three statements parallel with each other in such a way as to show the differences among them. The results are presented in Tables 17 and 18 at the end of this paper. These tables list all of the types of receipts and expenditures included in any of the statements. Then, in the columns for each statement, entries are made only on the lines showing the types of receipt and expenditure included in that particular statement. Each column adds to the total receipts or expenditures included in the statement concerned.

The differences among the statements are of two kinds. A certain receipt or expenditure item may be included in one statement but not in the other two (or in two of them but not in the third). In these cases, entries are made only in the appropriate columns. Or the same item may be included in two or more of the statements but with different timing. In these cases, if data were available, the same line shows figures in each column with the appropriate timing. If only the amount of the adjustment from one timing basis to another was available, then this timing adjustment is shown as a component of the statement or statements concerned.

The discussion of the differences among the statements follows the major groupings of receipts and expenditures in the Commerce statement. Admittedly, the components of the conventional and cash statements fit only very awkwardly into the Commerce statement classification, but this approach does at least permit a systematic organization of the discussion. Table 1 summarizes the three statements according to this classification, showing also the amounts of conventional and cash receipts and expenditures falling outside this classification scheme.

Expenditures

The expenditures sides of all three statements refer partly to gross expenditures and partly to net expenditures.

Netting in the conventional and cash statements is determined by the kinds of funds through which various transactions are accounted for. The principal funds whose transactions are relevant for the conventional statement are the general fund; special funds, those used to account for earmarked receipts; and revolving funds, those used to account for many, but not all, of the government's business-type activities. Expenditures and receipts of the general and special funds are recorded gross on the expenditures and receipts sides of the statement. In the case of revolving funds, receipts are netted against expenditures, and their net expenditures, positive or negative, are included on the expenditures side. The cash statement encompasses, in addition, the trust funds and deposit funds. The latter are in the nature of simple bank accounts with the Treasurer of the United States. Trust fund transactions are recorded gross, while the receipts of deposit funds are netted against their expenditures.

The netting in the Commerce statement cuts across the government's fund structure and is somewhat more extensive. In the tables that follow, netting differences are treated just as ordinary differences as to coverage—that is, certain negative expenditures (receipts) are shown as components of Commerce statement expenditures but not of conventional and cash expenditures, while the same receipts, except perhaps with different timing, are shown as components of the receipts sides of the conventional and cash statements but not of the Commerce statement. These netting differences should be borne in mind in any comparison of totals.

SUBSIDIES LESS CURRENT SURPLUS OF GOVERNMENT ENTERPRISES

Of the Commerce statement major groupings of expenditures, it is convenient to discuss first the smallest one, Subsidies less current surplus of government enterprises. This creates an early opportunity to discuss government enterprises in general. Such a discussion is useful because government enterprise transactions are components not only of Subsidies less current surplus of government enterprises but also of all other expenditures classes.

The treatment of government enterprises in the national income accounts is such as to consolidate most of their current (as opposed to capital) transactions with those of the business system, while at the same time consolidating their current deficits with the government deficit rather than with business profits. The full rationale of the treatment of government enterprises in the national income accounts is explained in *National Income Supplement, 1954, Survey of Current Business.* Here it will have to suffice to state the statistical facts as to how their transactions are incorporated in the government sector account.

Their purchases of newly produced fixed assets and their changes in inventory (plus or minus) are a part of Purchases of goods and services. Their interest payments to the public minus interest received from the public are a part of Net interest paid. Any transfer payments to individuals and grants-in-aid to state and local governments made through them are parts of those respective expenditures classes. And any outright subsidies to business furnished through them, minus a special concept of their current surpluses, are a part of Subsidies less current surplus of government enterprises.

Looked at positively, Subsidies less current surplus of government enterprises is composed of (1) outright subsidies, such as soil conservation payments to farmers, and (2) the current deficits of government enterprises. The latter are combined with subsidies because they are at least in part a subsidy to the rest of the economy. The annual deficit of the Post Office is the outstanding example. When a government enterprise incurs a surplus or profit, it takes a minus sign, since it is included on the expenditures side of the statement.

Referring henceforth to current deficits rather than current surpluses keeps the algebra simpler, though it may sound unduly pessimistic. It is also important for interpreting the tables to understand that the deficits and surpluses netted against each other are not comparable with the losses and profits of private enterprises. Specifically, in computing the former, all interest transactions are disregarded, and depreciation and other allowances for losses are not counted as expenses.

Without attempting to define the term "government enterprise" in a broad sense, I use it in this analysis to refer specifically to those entities treated as government enterprises in national income statistics in 1952 and 1953. For reconciliation purposes these can be divided into two categories on the basis of their treatment in the conventional statement. Category I government enterprises are those whose transactions are accounted for in a uniform manner in the budget document. Category II government enterprises are all others.

Category I Government Enterprises

Category I enterprises are financed through revolving funds. Their receipts are available for expenditure usually without action by Congress. Their net cash expenditures on operations, taking into consideration all types of investment and current operations, are included on the expenditures side of the conventional statement. Their net expenditures may be negative and take a minus sign.

For each revolving fund activity the budget document presents three business-type accounting statements—a sources and uses of funds statement, an income and expense statement, and a balance sheet. Statement A, the sources and uses of funds statement, shows gross expenditures and receipts on an accrual basis and includes also an entry on one side or the other for the change in selected working capital. This entry adjusts net accrued expenditures to a cash basis for inclusion on the expenditures side of the conventional statement.

These sources and uses of funds statements provide an excellent basis for reconciling the conventional, cash, and Commerce statement treatments of the Category I enterprises. The net expenditures of the revolving funds can be broken up into net parts, and those included on the expenditures sides of each of the three statements can be identified. This is done in Table 2.

Lines 1 through 10 show the amounts that are included somewhere on the expenditures side of the Commerce statement. Lines 1 through 4 are components of Purchases of goods and services,[8] the disposition of lines 5 through 7 is clearly indicated, and lines 8 through 10 are included in Subsidies less current surplus of government enterprises.

One of the advantages of the budget document's Statements A in this context is the ease with which current deficits in the national income sense can be derived from them. For one thing, income and expense items are reported on an accrual basis, just as they are wanted for the Commerce statement. Second, they include only those income and expense items which involve the current use of funds—that is, only such income and expense items as are of interest for the Commerce statement. Since depreciation and other entries representing changes in reserves are not included, they do not have to be explicitly eliminated in getting to the Commerce concept of the current deficit or surplus.

The process of breaking up the Statements A can be illustrated by "working through" with one of the Category I enterprises. The Commodity Credit Corporation is the best example in the sense that the handling of the complications encountered with respect to this enterprise reveals most thoroughly the breaking-up process.

The CCC buys and sells commodities; it makes loans on com-

[8] Acquisitions of land and non-currently produced buildings and productive equipment are not always clearly distinguished in the Statements A. It is possible that line 1 includes some expenditures for land and used assets that should be included on line 12.

TABLE 2

Net Expenditures of Category I Government Enterprises, Showing Components Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953

(thousands of dollars)

Line	*Type of Expenditure*	*Statement*[a]	*Alaska Railroad*	*Commodity Credit Corporation*	*Export-Import Bank*
1.	Newly produced fixed assets	A B C	11,481	1,108	9
2.	Inventory increase	A B C		1,282,122	
3.	Increase in CCC commodity loans (excluding tobacco)	A B C		518,723	
4.	Increase in guaranteed commodity loans	[b] [b] C		230,467	
5.	Transfer payments	A B C			
6.	Net interest paid to public	A B C	−1	−16,211	−75,800
7.	Grants-in-aid	A B C			
8.	Outright subsidies	A B C		132,949	
9.	Current deficit (excluding line 10)	A B C	−1,344	74,059	1,052
10.	Less: Credit for tolls on US government vessels	A C			
11.	Net loans (excluding line 3)	A B		24,569	164,622
12.	Net purchase of land and 2nd-hand assets	A B	−88	−29	−1
13.	Interest paid to Treasury	A		46,478	22,975
14.	Less: Interest received on US securities	[b] [b]			
15.	Other payments to Treasury	A			
16.	Net intra-agency transactions (excluding purchases)	[b] [b]	−2,040	−21,590	
17.	Adjustment for guaranteed commodity loans	[b] [b]		−230,467	
18.	Adjustment of line 10 to cash basis	A			
19.	Adjustment of line 13 to cash basis	A		0	0
20.	Adjustment of line 15 to cash basis	A			
21.	Adjustment of other lines to cash basis	A B	414	−99,524	4,474
	Net expenditures—total		8,424	1,942,657	117,331

(*continued on next page*)

TABLE 2 (continued)
(thousands of dollars)

Line	Federal Farm Mortgage Corporation	Federal Housing Administration	Federal Intermediate Credit Banks	Federal National Mortgage Association	Federal Prison Industries, Inc.	Federal Savings and Loan Insurance Corporation	Inland Waterways Corporation
1.		123		34	528	2	2,389
2.					209		
3.							
4.							
5.							
6.	−1,247	5,839	−3,835	−90,890			
7.							
8.							
9.	926	−53,350	1,950	12,789	−3,308	−12,557	−1,981
10.							
11.	−7,672	19,495	−73,250	429,652		−236	−81
12.	−1,215	18,386	58	−7	−6		−93
13.				44,723			
14.		−8,743	−1,213			−4,964	
15.							
16.		1,285					
17.							
18.							
19.				−5,051			
20.							
21.	−78	−25,622	4,180	−12,626	−356	−455	−234
	−9,286	−42,587	−72,111	378,626	−2,933	−18,210	0

(continued on next page)

TABLE 2 (continued)
(thousands of dollars)

			PUBLIC HOUSING ADMINISTRATION		
Line	*Type of Expenditure*	*Statement*[a]	*U.S. Housing Act Program*	*Public War Housing Program*	*Veterans' Re-use Housing Program*
1.	Newly produced fixed assets	A B C	502	28,709	511
2.	Inventory increase	A B C			
3.	Increase in CCC commodity loans (excluding tobacco)	A B C			
4.	Increase in guaranteed commodity loans	b b C			
5.	Transfer payments	A B C			
6.	Net interest paid to public	A B C	–18,238	–686	–1
7.	Grants-in-aid	A B C	25,881		
8.	Outright subsidies	A B C			
9.	Current deficit (excluding line 10)	A B C	6,765	–31,353	–140
10.	Less: Credit for tolls on US government vessels	A C			
11.	Net loans (excluding line 3)	A B	–1,987	–885	–54
12.	Net purchase of land and 2nd-hand assets	A B	–3,318	–3,918	–1,771
13.	Interest paid to Treasury	A	14,294		
14.	Less: Interest received on US securities	b b			
15.	Other payments to Treasury	A			
16.	Net intra-agency transactions (excluding purchases)	b b	1	577	
17.	Adjustment for guaranteed commodity loans	b b			
18.	Adjustment of line 10 to cash basis	A			
19.	Adjustment of line 13 to cash basis	A	0		
20.	Adjustment of line 15 to cash basis	A			
21.	Adjustment of other lines to cash basis	A B	16,884	–435	–347
	Net expenditures—total		40,784	–7,991	–1,803

(continued on next page)

TABLE 2 (continued)
(thousands of dollars)

Line	Panama Canal Company	Production Credit Corporations	RECONSTRUCTION FINANCE CORPORATION Production Programs	Lending Programs	Liquidation Programs	Tennessee Valley Authority	Total
1.	9,127	30	24,330			214,392	293,275
2.			–22,492				1,259,839
3.							518,723
4.							230,467
5.							0
6.				–26,256		–12	–227,338
7.							25,881
8.							132,949
9.	–24,216	1,559	–96,329	5,031	–3,660	–34,143	–158,250
10.	–5,558						–5,558
11.	5	–2,936		–15,148			536,094
12.	–136			–119	–2,814	–3,021	1,908
13.	6,669			3,482		675	139,296
14.		–1,087					–16,007
15.	11,320						11,320
16.			–1,998	2,217	–200		–21,748
17.							–230,467
18.	2,144						2,144
19.	–306			234		19	–5,104
20.	–1,712						–1,712
21.	–7,854	–43	–1,711	–5,921	–8,127	6,442	–130,939
	–10,518	–2,477	–98,200	–36,480	–14,800	184,353	2,354,773

[a] A, B, and C refer to conventional, cash, and Commerce statements respectively.
[b] Included among net expenditures of revolving funds but offset in the totals of conventional and cash expenditures.
Note: Components may not add to totals because of rounding.

modities and later takes over the commodity collateral when the loans go into default; and it guarantees commodity loans made by banks and other private lending institutions, which it subsequently takes over at the request of these institutions.[4]

The CCC's Statement A from the budget document is reproduced as Table 3. A few of the original entries are split into finer detail, but total funds applied to operations, total funds provided by operations, and net budget expenditures are identical with the amounts in the budget document. Funds applied to and provided by financing are given only in total figures, since the detail is not relevant for this purpose.

One feature of the CCC's Statement A merits particular attention. It may be seen that, under Acquisition of assets, there are included both outright CCC loans to producers and also the loans made by banks and other lending agencies which are guaranteed by CCC. Likewise, on the funds provided side there are included both repayments to CCC and repayments of guaranteed loans to banks and other lending agencies. This may seem surprising in view of the fact that the guarantee of loans by government agencies is understood not to affect the budget. Actually, these reported transactions of banks in guaranteed loans do not affect the budget, for their effect is offset by entering under Decrease in selected working capital the net increase in guaranteed loans outstanding. This is, in effect, a source of funds for the CCC programs, if they are conceived to encompass guaranteed bank loans as well as the CCC's own direct loans to producers.

An alternative construction through which one would achieve the same budgetary effect would be to show on the funds applied side outright loans by CCC plus the guaranteed loans which are purchased by CCC from the private lending agencies and, on the other side of the account, repayments to CCC only. This would be a more understandable presentation from a strict accounting point of view, but it would give a narrower picture of the price-support program.

The fact that the CCC's Statement A is set up to encompass both outright and guaranteed loans is particularly fortunate for the pur-

[4] Prior to the fiscal year 1953 and again after fiscal 1953 the CCC made use of a "certificate of interest" method of loan financing whereby certificates of interest or participation in loans held by the CCC are sold to private lending institutions. In effect, the CCC borrows from these institutions, though in the CCC's accounts issuance of the certificates is treated as the sale of an asset. Since it happens that this method of financing was not used at all in fiscal 1953, it need not complicate this discussion.

pose here. The Commerce statement includes under Purchases of goods and services a very special concept of the CCC inventory increase. It considers the CCC inventory increase to be composed of three parts, namely, (1) its inventory increase in the ordinary sense —that is, the increase in commodities owned by the CCC, (2) the increase in most kinds of price-support loans outstanding held by the CCC, and (3) the increase in most kinds of price-support loans outstanding held by banks and other lending agencies.

It may be noted that loans on tobacco are separated out from other price-support loans in this modified version of Statement A. This is because the Commerce statement does not include the increase in tobacco loans outstanding as part of the CCC inventory increase. The CCC's loans on tobacco are made under a different procedure from its other price-support loans, and they are more akin to bona-fide business loans.

In order to break up the $1,942,657,000 of the CCC's net budget expenditures into the specific items listed in Table 2, nine additional figures were needed. Table 4 is a sort of worksheet showing how the figures in Statement A and the nine additional ones were fitted together to arrive at the breakdown of the CCC's net expenditures given in Table 2. A separate account was set up to correspond with each line in Table 2, and the entries in Statement A were distributed among them. These are the amounts under Funds Applied and Funds Provided which are not enclosed in parentheses. Those in parentheses are the nine additional figures. Each of the latter appears once under Funds Applied and once under Funds Provided. In the third column a Net Expenditures figure is given for each account, and these add up to the net expenditures of the revolving fund as shown in the budget document.

The nine parenthetical adjustment figures used in the worksheet are as follows:

1. $1,280,427,000—the amount of price-support loans originally made by banks that were taken over—purchased—by the CCC. Commodity loans held by the CCC (Account 3) must be raised by this amount and commodity loans held by private lending agencies (Account 4) must be reduced by the same amount.

2. $143,000—storage facility loans originally made by private lending institutions that were purchased by CCC. CCC net loans—ordinary loans—(Account 11) are raised by this amount and guaranteed storage facility loans are reduced by the same amount.

TABLE 3

Commodity Credit Corporation

A. Statement of Sources and Applications of Funds

(thousands of dollars)

ACCT. NO.[a]	FUNDS APPLIED	FY 1953 ACTUAL
	To Operations	
	Price-support program:	
	Acquisition of assets: Loans to producers	
	By CCC	
11.	On tobacco	161,877
3.	On all other commodities	341,078
4.	By private lending agencies (guaranteed by CCC)	1,619,176
	Expenses:	
2.	Purchases of commodities and other costs	890,896
9.	Other program expenses	1,667
	Supply and foreign purchase programs:	
	Expenses:	
	Purchases of commodities and other costs	
16.	Acquisition of cotton from price support program	14,121
2.	All other	87,005
9.	Other program expenses	453
	Storage facilities program:	
	Acquisition of assets:	
	Loans on storage facilities and equipment	
11.	By CCC	5,981
21.	By private lending agencies (guaranteed by CCC)	1,107
1.	Purchases of storage facilities and equipment	842
	Loans to Secretary of Agriculture:	
16.	Loans for agricultural conservation purposes	35,410
	Other expenditures on regular operations:	
1.	Acquisition of assets: Purchases of administrative equipment.	266
	Expenses:	
	Administrative expenses:	
9.	Applicable to limitation	15,909
9.	Reimbursable	19,924
9.	Prior-year adjustments to administrative expenses	6
	Interest on borrowings:	
13.	Treasury	46,478
6.	Other	2
9.	Nonadministrative expenses	6,872
	Special activities:	
8.	Transfers and other costs for eradication of foot-and-mouth disease	2,163
8.	International Wheat Agreement costs	130,786
	Total applied to operations	3,382,021
	To Financing	
	Total applied to financing	577,672
	TOTAL FUNDS APPLIED	3,959,693

(continued on next page)

TABLE 3 (continued)

(thousands of dollars)

ACCT. NO.[a]	FUNDS PROVIDED	FY 1953 ACTUAL
	By Operations	
	Price-support program:	
	Realization of assets:	
	Repayment of loans:	
	To CCC	
11.	On tobacco	133,555
3.	On all other commodities	212,776
4.	To private lending agencies	108,282
3.	Loans transferred to accounts receivable	1,341
	Income:	
9.	Sales of commodities	450,432
16.	Disposition of cotton to supply and foreign purchase program	14,121
9.	Other program income and recoveries	1,572
	Supply and foreign purchase program:	
	Income:	
9.	Sales of commodities	75,806
9.	Losses recoverable from other funds	9,119
9.	Other program income	1,790
	Storage facilities program:	
	Realization of assets:	
	Repayments of loans:	
11.	To CCC	5,927
21.	To private lending agencies	1,865
11.	Loans transferred to accounts receivable and other settlements	109
12.	Sale of storage property	20
9.	Income	121
	Loan to Secretary of Agriculture:	
16.	Repayments of loans	57,000
	Subsidy program:	
9.	Income: Prior year adjustments	75
	Other receipts from regular operations:	
	Realization of assets:	
12.	Proceeds from sale of administrative equipment	9
	Income:	
6.	Interest	16,213
9.	Other income	218
9.	Administrative expense reimbursements	19,924
	Decrease in selected working capital:	
17.	Net increase in commodity loans held by private lending agencies	230,467
21.	Other	98,623
	Total provided by operations	1,439,365
	By Financing	
	Total provided by financing	2,520,328
	TOTAL FUNDS PROVIDED	3,959,693

(continued on next page)

TABLE 3 (continued)
(thousands of dollars)

ACCT. NO.[a]	EFFECT ON BUDGET EXPENDITURES	FY 1953 ACTUAL
	Funds applied to operations	3,382,021
	Funds provided by operations	1,439,365
	Net effect on budget expenditures	1,942,657

[a] Numbers refer to lines in Table 2.
Note: Components may not add to totals because of rounding.

This latter part of the adjustment is made in Account 21 in the worksheet.

3. $888,383,000—the value of loan collateral—i.e. commodities—taken over by the CCC from producers on account of price-support loans on all commodities other than tobacco. This raises inventory in the ordinary sense (Account 2) and reduces outstanding commodity loans held by the CCC (Account 3).

4. $965,000—the value of tobacco taken over by the CCC on account of defaulted tobacco loans. This raises inventory (Account 2) and reduces net loans (Account 11).

5. $282,000—commodity loans charged off. The current deficit (Account 9) must be raised by this amount and commodity loans held by CCC (Account 3) reduced by the same amount.

6. $2,876,000—tobacco loans charged off. This increases the current deficit (Account 9) and reduces net loans (Account 11).

7. $582,472,000—the cost of goods sold. The cost of goods sold is properly included as an expense in computing the current deficit (Account 9) and as a reduction in inventory (Account 2). The cost of goods sold as derived from the records of the CCC is $590,172,000, but this figure required an adjustment. The CCC charges depreciation on government-owned bins and peanut testing equipment to inventory, and an unknown amount of such depreciation is implicitly included in the cost of goods sold. In the Commerce statement of current deficits, depreciation is not included as an expense. Therefore, I made the gesture of reducing the stated cost of goods sold by an amount intended to represent depreciation, using for this purpose the amount of depreciation charged to inventory in fiscal 1953.

8. $2,680,000—cost of commodities donated—for instance, to the school lunch program. This amount also raises the current deficit (Account 9) and reduces inventory (Account 2).

TABLE 4

Commodity Credit Corporation Worksheet:
Breakdown of Net Revolving Fund Expenditures by Components
Included and Not Included in Commerce Statement Expenditures
(thousands of dollars)

Acct. No.[a]		*Funds Applied*	*Funds Provided*	*Net Expenditures*
1.	Newly produced fixed assets	1,108		1,108
2.	Inventory increase	977,901	(582,472)	1,282,122
		(888,383)	(2,680)	
		(965)		
		(25)		
3.	Increase in CCC commodity loans (excluding tobacco)	341,078	214,117	518,723
		(1,280,427)	(888,383)	
			(282)	
4.	Increase in guaranteed commodity loans	1,619,176	108,282	230,467
			(1,280,427)	
6.	Net interest paid to public	2	16,213	—16,211
8.	Outright subsidies	132,949		132,949
9.	Current deficit	44,831	559,057	74,059
		(582,472)	(25)	
		(2,680)		
		(2,876)		
		(282)		
11.	Net loans (excluding Account 3)	167,858	139,591	24,569
		(143)	(965)	
			(2,876)	
12.	Net purchase of land and second-hand assets		29	—29
13.	Interest paid to Treasury	46,478		46,478
16.	Net intra-agency transactions (excluding purchases)	49,531	71,121	—21,590
17.	Adjustment for guaranteed commodity loans		230,467	—230,467
21.	Adjustment of other accounts to cash basis	1,107	100,488	—99,524
			(143)	
	Total Statement A entries	3,382,021	1,439,365	1,942,657
	Total adjustment entries	(2,758,253)	(2,758,253)	0
	Net effect on budget expenditures			1,942,657

[a] Numbers refer to lines in Table 2.
Note: Components may not add to totals because of rounding.

9. $25,000—the mark-up in the value of loan collateral acquired which resulted from sampling and grading. This raises inventory (Account 2) and reduces the current deficit (Account 9). It is a sort of income-in-kind item.

With these adjustments made in the accounts, the net figures in the third column are precisely the amounts that are wanted and not wanted respectively in the Commerce statement.

Aside from the Commodity Credit Corporation, the only other one of the Category I enterprises that presented a complication in the reconciliation process was the Panama Canal Company. To handle this complication in a "clean" way required four separate lines in Table 2.

The Panama Canal Company must reimburse the Treasury for the cost of the Canal Zone Government, but the amount of the reimbursement is reduced by the amount that the Navy, etc., owe the Panama Canal Company for tolls on United States government vessels. Then only the difference is actually transferred from conventional expenditures to conventional receipts. This net reimbursement is included in conventional expenditures but excluded from cash statement expenditures as an intra-governmental transfer of funds.

Conceptually, in the Commerce statement, the positive part of the reimbursement (line 15 of Table 2) is excluded from expenditures not only because it represents an intra-governmental transfer of funds but also because it would otherwise constitute double counting, since the government's original expenditures for the support of the Canal Zone government are included in Purchases of goods and services. The negative component of the net reimbursement, the credit for tolls on United States government vessels, both is and is not a component of Commerce statement expenditures. Conceptually, it is a legitimate negative component of the Panama Canal Company's current deficit (line 10 of Table 2), since it represents the sale of a currently produced service by a government enterprise. It should, however, also be counted positively among Purchases of goods and services by general government because it is properly a part of the gross national product. Therefore I have included it negatively in Subsidies less current surplus of government enterprises and positively in Purchases of goods and services, though it cancels out in the over-all total of Commerce statement expenditures.

The positive and negative parts of the net reimbursement are shown on an accrual basis in the Panama Canal Company's Statement A and on lines 15 and 10 of Table 2. It is the actual cash payment, however, that is excluded from the cash statement. Therefore Table 2 shows explicitly on lines 20 and 18 the amounts of the Panama Canal Company's stated change in selected working capital that adjust these accruals to a cash basis. They are excluded from cash statement expenditures.

Category II Enterprises

The Category II enterprises cannot be generalized about as were the Category I enterprises. These are treated in a uniform manner in the Commerce statement, but their transactions are included in the conventional and cash statements in various different ways. Table 5 summarizes the treatment of those enterprises according to the same scheme used in Table 2 for Category I enterprises, but the figures were derived from various different sources and are not as exact or as consistent with each other as were those in Table 2.

The Post Office is accounted for through a revolving fund, but it was not included in Category I because its Statement A in the budget document appears in only a very rudimentary form.

A particular difficulty in reconciling the treatments of the Post Office in the various statements involves the relationship between the Post Office proper and the Postal Savings System. The two together are treated as one enterprise in the Commerce statement, whereas in the cash statement the Post Office proper is a part of the government but the Postal Savings System is not. The latter is considered a part of the public, and the government's transactions with the System—sale of securities, payment of interest on securities, etc.—are considered to be transactions with the public. However, the System's net earnings are counted as a receipt in computing the net expenditures of the Post Office as included among conventional and cash expenditures.

For the purpose of this reconciliation, the Post Office and the Postal Savings System are shown as two separate enterprises in Table 5. The transfer of net earnings from the Postal Savings System to the Post Office proper is shown as a subsidy paid by the Postal Savings System and as a negative subsidy—a subsidy received from the public—by the Post Office proper. This rather artificial construction has the effect of consolidating the two in the Commerce statement.

The Federal Crop Insurance Corporation's transactions are accounted for partly through the general fund and partly through a revolving fund. Its operating and administrative expenditures are paid from the general fund and reported gross on the expenditures side of the conventional and cash statements. Its other expenditures, and all of its receipts, are handled through a revolving fund whose net expenditures are included in the usual way among conventional and cash expenditures.

TABLE 5

Net Expenditures of Category II Government Enterprises, Showing Components Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953[a]

(millions of dollars)

Line	*Type of Expenditure*	*Post Office*	*Postal Savings System*	*Federal Crop Insurance Corporation*	*Rural Electrification Administration*
1.	Newly produced fixed assets	10 ABC			
5.	Transfer payments				
6.	Net interest paid to public		48 C		—38 C
8.	Outright subsidies	60	15		
	Airmail subsidies	76 ABC			
	Earnings of Postal Savings System	—15 ABC	15 C		
9.	Current deficit	572 ABC		6 ABC	8 ABC
	Expenditures				
	Less: Receipts				
11.	Net loans				183
	New loans				231 AB
	Less: Repayments				—49
13.	Interest paid to Treasury				36
14.	Less: Interest received on U.S. securities		—62		
21.	Adjustment to cash basis	18 AB		—1 AB	21
	Net expenditures—total	660	0	5	209
22.	Net funds applied to financing not clearing through accounts of U.S. Treasurer				
	Net expenditures as derived from books of U.S. Treasurer				

(*continued on next page*)

TABLE 5 (continued)

(millions of dollars)

Line	*Boulder Canyon Project*	*Bonneville Power Administration*	*Federal Home Loan Banks*	*Banks for Cooperatives*	*Federal Deposit Insurance Corporation*	*Navy Ships' Stores*	*Army PX's*	*Navy Exchanges*	*Total*
1.		54 ABC							64
5.						7 ABC	75 C	19 C	101
6.			–4 BC	–8 BC					–2
8.									76
9.	–7	–33	2 BC	2 BC	–52 BC	–8 C	–75 C	–19 C	397
	3 ABC	7 ABC							
	–9 C	–40 C							
11.			81 B	–22 B	2 B				244
13.	3 A								39
14.			–8		–33				–104
21.			–103 B	–3 B	–4 B				–72
	–3	20	–32	–31	–87	0	0	0	742
22.			–41 B	26 B					
			–73	–5	–87				

[a] A, B, and C refer to expenditures sides of conventional, cash, and Commerce statements respectively.

Note: Components may not add to totals because of rounding.

Source: Budget document; Combined Statement of Receipts, Expenditures, and Balances; annual reports of the Secretary of the Treasury, Postmaster General, and Bonneville Power Administration; and Commerce Department worksheets.

The Rural Electrification Administration receives both (1) loans from the Secretary of the Treasury and (2) appropriations, to carry on its functions. Then its own loans to the public and its salaries and expenses are included on the expenditures sides of the conventional and cash statements. When the REA receives loan repayments from the public and interest payments from the public, these do not, as such, affect the conventional or cash statements. However, when the REA uses the proceeds to repay its borrowings from the Treasury and to pay interest to the Treasury, these payments appear on the receipts sides of the conventional and cash statements.

The transactions of the Bonneville Power Administration and the Boulder Canyon Project are handled through general and special funds. Their gross expenditures are included on the expenditures sides of the conventional and cash statements and their gross receipts on the receipts sides, except that the Boulder Canyon's interest payment to the Treasury is not a component of cash statement expenditures and receipts. It may be noted that the expenditures sides of these statements include the positive part, but not the negative part, of these enterprises' current deficits in the national income accounting sense.

The federal home-loan banks, banks for cooperatives, Federal Deposit Insurance Corporation, and federal land banks are commonly referred to as quasi-governmental enterprises. They are sponsored by the government, but the government does not hold all of their capital stock. All four are outside the scope of the conventional statement, since the conventional statement encompasses only wholly owned enterprises. All four are included in the cash statement. In the Commerce statement the first three are included as government enterprises, while the federal land banks are excluded.[5]

[5] The federal land banks have been excluded from the Commerce statement since June 1947, when the part of their capital stock owned by the government was retired. While the federal home-loan banks have also been privately owned since 1951, they are included in the Commerce statement because (1) they have authority to borrow from the Treasury, (2) they are permitted to invest in special issues of government securities, and (3) they are subject to audit by the General Accounting Office. The federal land banks have none of these attachments.

The stock of the banks for cooperatives is partly owned by the government and partly privately owned. The Federal Deposit Insurance Corporation has no capital stock outstanding but the government would have the right to its earned surplus in case of dissolution.

Business-type accounting statements for the three enterprises included

Cash statement expenditures include the net expenditures of these agencies as reflected on the books of the Treasurer of the United States (a concept that approximates the net expenditures on operations of the revolving funds), minus net interest paid to the government. This approximation to net expenditures on operations is derived indirectly from information on funds applied to and provided by financing. Net purchases of United States securities plus net redemption of their own obligations gives the net amount applied to financing.[6] This should also be the net amount provided by operations. Changing the sign gives net expenditures on operations. Net interest paid to the government is then deducted. This is a negative item because the interest transactions of these enterprises with the government consist entirely of receipts of interest on the United States securities they hold.

The following table shows the computation in millions of dollars.

	Federal Home Loan Banks	*Banks for Cooperatives*	*Federal Deposit Ins. Corp.*	*Federal Land Banks*	*Total*
Net investment in U.S. securities	61	5	87	0	153
Plus: Net redemptions of own obligations	12	0	0	−45	−33
Equals: Net funds applied to financing, or net funds provided by operations	73	5	87	−45	120
Net expenditures on operations	−73	−5	−87	45	−120
Less: Net interest paid to government	−8	0	−33	0	−41
Equals: Component of cash statement expenditures	−65	−5	−54	45	−79

In order to effect a reconciliation between the cash and Commerce statement treatments of the first three of these agencies, it was necessary to break down their net expenditures as included in the cash statement into the net parts included and not included in the Commerce statement. This could be done on the basis of sources and uses of funds statements published in the *Annual Report of the Secretary of the Treasury, 1953*. The results are shown in Table 5.

In keeping with the definition of government enterprises used in this analysis, namely, those enterprises that are treated as gov-

in the Commerce statement are regularly presented in the *Treasury Bulletin*.

[6] From the point of view that these agencies are a part of the government. From their own point of view, their dealings in United States securities are part of their operations.

ernment enterprises in the national income accounts, the federal land banks are not included in Table 5. However, it was possible to prepare the same sort of tabulation for the federal land banks from information included in the *Annual Report of the Farm Credit Administration, 1952-53*. Their net expenditures as included in the cash statement consist of the following components, and these are included in the reconciliation tables where pertinent:

	(*millions of dollars*)
6. Net interest paid to the public	–26
9. Current deficit	13
11. Net loans	89
21. Adjustment to cash basis	–31
Net expenditures as derived from books of U.S. Treasurer	45

Navy ships' stores, Army Post exchanges, and Navy exchanges are all treated alike in the Commerce statement as government enterprises. Their profits are included with a minus sign in Subsidies less current surplus of government enterprises. Their profits are also included with a plus sign with Transfer payments, since they are used for the recreation and welfare of the troops.

Of the three, the transactions of only the Navy ships' stores are reflected in the conventional and cash statements. These are the stores aboard ships and in foreign bases. They are different from the Navy exchanges in the United States in that they are not responsible for paying their own overhead costs. Their net profits are included in conventional and cash receipts and then paid out for welfare and recreation activities from the expenditures sides of the statements.

Table 6 shows the components of Subsidies less current surplus of government enterprises that are included in each of the three statements. All the entries are taken from Tables 2 and 5 except the first and the last two. The first entry, Outright subsidies paid by general government agencies, is common to all the statements. The amount was taken from the Commerce Department's worksheets. The last two, involving retirement deductions from employees' salaries and the federal government's contribution to the retirement fund, require some explanation.

Gross government salary payments are counted positively among both conventional and Commerce expenditures. According to the Commerce classification, the salaries of general government employees are a part of Purchases of goods and services, while the

TABLE 6

Subsidies Less Current Surplus of Government Enterprises: Amounts Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953

(millions of dollars)

		STATEMENT		
		Conventional	*Cash*	*Commerce*
	Outright subsidies:			
1.	By general government agencies	252	252	252
2.	By Category I government enterprises	133	133	133
	By Category II government enterprises			
	Post Office proper			
3.	Airmail subsidies	76	76	76
4.	Less: "Subsidy" received from Postal Savings System	−15	−15	−15
5.	Postal Savings System			15
	Current deficits of Category I government enterprises:			
6.	Amount common to all statements	−158	−158	−158
7.	Less credit for tolls on U.S. government vessels	−6		−6
	Current deficits of Category II government enterprises:			
8.	Post Office	572	572	572
9.	Federal Crop Insurance Corporation	6	6	6
10.	Rural Electrification Administration	8	8	8
	Boulder Canyon Project			
11.	Expenditures	3	3	3
12.	Less receipts			−9
	Bonneville Power Administration			
13.	Expenditures	7	7	7
14.	Less receipts			−40
15.	Federal home loan banks		2	2
16.	Banks for cooperatives		2	2
17.	Federal Deposit Insurance Corporation		−52	−52
18.	Navy ships' stores			−8
19.	Army PX's			−75
20.	Navy exchanges			−19
21.	Less: Civil service retirement deductions from salaries of government enterprise employees		−107	
22.	Federal government contribution to civil service retirement fund on behalf of government enterprise employees	83		83
	Total	961	729	777

salaries of government enterprise employees, as operating expenses of the enterprises, are a component of their current deficits, i.e. a positive component of Subsidies less current surplus of government enterprises.

In the cash statement the part of salaries that is deducted and transferred to the retirement fund is excluded from expenditures. This means, using the Commerce classification, that the amount of retirement deductions from the salaries of general government employees is excluded from Purchases of goods and services, and the amount of retirement deductions from the salaries of government enterprise employees is excluded from Subsidies less current surplus of government enterprises. Since the current deficits of the enterprises as shown in Table 6 include their full salary bills, the cash statement exclusion of the part representing retirement deductions is recognized by subtracting the estimated amount of such deductions in the cash statement column.

With regard to the federal government's lump-sum contribution to the retirement fund, a somewhat similar explanation is applicable. This payment is a part of both conventional and Commerce expenditures. In Commerce methodology, the payment is prorated, part of it being considered a supplement to the wages and salaries of general government employees and part being considered a supplement to the wages and salaries of government enterprise employees. The part considered as being on behalf of general government employees is included in Purchases of goods and services, and the part considered as being on behalf of government enterprise employees is included in Subsidies less current surplus of government enterprises. Therefore, Table 6 shows the latter amount in the conventional and Commerce columns but not in the cash statement column.

NET INTEREST PAID

Table 7 shows the entire interest component of the expenditures sides of the three statements.

Public debt interest paid to trust funds, to the federal home-loan banks, and to the Federal Deposit Insurance Corporation is included only in conventional statement expenditures. So far as the cash and Commerce statements are concerned these are intra-governmental interest payments and are therefore excluded. Interest paid to the Postal Savings System is a component of cash statement expenditures, since it represents a payment to the public, the public

TABLE 7

Net Interest Paid to the Public:
Amounts Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953
(millions of dollars)

		STATEMENT		
		Conventional	*Cash*	*Commerce*
	Interest on the public debt:[a]			
1.	To trust funds	1,094		
2.	To Postal Savings System	62	62	
3.	To federal home loan banks	8		
4.	To Federal Deposit Insurance Corporation	33		
5.	On savings bonds and Treasury bills	1,259	540	1,259
6.	Other interest to the public	4,032	4,032	4,032
7.	Interest on refunds of receipts	75	75	75
8.	Net interest paid to public by Category I government enterprises	—227	—227	—227
	Net interest paid to public by Category II government enterprises:			
9.	Postal Savings System			48
10.	Rural Electrification Administration			—38
11.	Federal home loan banks		—4	—4
12.	Banks for cooperatives		—8	—8
13.	Net interest paid to public by revolving funds not treated as government enterprises	—16	—16	—16
14.	Net interest paid to public by federal land banks		—26	
	Interest paid to Treasury:			
15.	By Category I government enterprises	134		
16.	By revolving funds not treated as government enterprises	7		
17.	By Boulder Canyon Project	3		
18.	Less: Interest receipts from public included on receipts side of conventional and cash statements			—171
	Total	6,464	4,428	4,950

[a] Public debt interest paid to revolving funds is not shown in the table, since it cancels out on the expenditures sides of all three statements.

being defined for cash statement purposes to include the Postal Savings System. Interest on savings bonds and Treasury bills is included on an accrual basis in the conventional and Commerce statements, whereas the cash statement includes the amount of such interest actually paid. Other public debt interest going to the public is shown in all three columns on a date payable basis, as it is recorded in the conventional statement.

Interest transactions relating to government enterprises are taken from Tables 2 and 5. There are some minor revolving funds not treated as government enterprises, and their net interest payments to the public are components of all three statements, while their interest payments to the Treasury are included only in conventional expenditures.

In the conventional and cash statements, some of the government's interest receipts from the public, not being received by revolving funds, are not netted against expenditures. They are included positively on the receipts sides of these statements. In the Commerce statement, however, the amount of such receipts is explicitly deducted from the expenditures side so that the expenditures class, net interest paid, will summarize all the government's interest transactions with the public.

TRANSFER PAYMENTS

Table 8 summarizes the differences among the three statements insofar as they relate to transfer payments. It may be seen that transfer payments from the general and special funds are components of all three statements, while those from the social insurance trust funds are components only of the cash and Commerce statements.

The transfer payments made through government enterprises were discussed in connection with Table 5. Another type of transfer payment that requires explicit mention is transfer payments in the form of securities—armed forces leave bonds and adjusted service bonds.

Armed Forces Leave Bonds. Under the Armed Forces Leave Act of 1946, certain payments to service personnel for terminal leave (accumulated prior to September 1, 1946) were made in the form of bonds. As these armed forces leave bonds were issued, they were treated as expenditures in the conventional statement.

The final date for filing claims was June 30, 1951, except for certain claims resulting from the correction of service records. Thus the effect of these bonds on the conventional statement is now negligible. In fact, in fiscal 1953 the amount issued and included in conventional statement expenditures was a small negative figure, probably representing some sort of bookkeeping adjustment.

In the cash and Commerce statements it is redemptions of these bonds that are counted as expenditures.

Adjusted Service Bonds. In 1924, the federal government issued to World War I veterans "adjusted service certificates" which

TABLE 8

Transfer Payments:
Amounts Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953
(millions of dollars)

		STATEMENT		
		Conventional	*Cash*	*Commerce*
	Transfer payments from social insurance trust funds:			
1.	Old-age and survivors insurance benefits[a]		2,606	2,606
2.	State unemployment insurance benefits[a]		898	898
3.	Railroad retirement insurance benefits		459	459
4.	Railroad unemployment insurance benefits		98	98
5.	Federal civilian pensions[a]		361	361
6.	Veterans' life insurance benefits[a]		658	658
	Transfer payments from general and special funds:			
7.	Armed forces leave bonds	[b]	24	24
8.	Profits of Navy ships' stores	7	7	7
9.	Other[a]	4,219	4,219	4,219
	Other transfer payments:			
10.	Adjusted service bonds		1	1
11.	Profits of Army PX's			75
12.	Profits of Navy exchanges			19
	Total	4,226	9,331	9,425

[a] Excludes estimated amounts going to persons not residing in continental United States, as follows: OASI benefits, $22 million; state (territorial) unemployment benefits, $8 million; civil service retirement benefits, $2 million; veterans' life insurance benefits, $2 million; and transfer payments from general and special funds, $9 million.
[b] —$725.

were to mature in 1944. At the same time, a trust fund was established to pay off the certificates at maturity. The Treasury made payments to the trust fund, which were counted as expenditures in the conventional statement at the time they were made.

By the Adjusted Compensation Payment Act of 1936, veterans holding adjusted service certificates were permitted to exchange them for adjusted service "bonds." These were cashable upon demand. The issuance of these bonds, in exchange for certificates, like cash payments for certificates, was an expenditure of the adjusted service certificate trust fund.

At the present time, a few of these bonds are still being issued from the trust fund. Their issuance is irrelevant for the conventional statement because the trust funds are outside the conventional statement, and it is irrelevant for the cash statement because it constitutes a "noncash" payment. Redemptions of these bonds, however, like redemptions of armed forces leave bonds, are counted as expenditures in both the cash and Commerce statements.

It may be noted that Table 8 refers only to transfer payments to residents of the continental United States. According to national income accounting definitions, the expenditures class Transfer payments includes only transfers to residents. Transfers to individuals residing in the territories or elsewhere are unilateral transfers to abroad and, as such, are a component of Purchases of goods and services.

GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS

For the most part, grants-in-aid are included in all three statements, as shown in Table 9. The only exception is that grants to the District of Columbia are excluded from the cash statement. The District's general fund, together with its special funds and trust funds, are all treated as a federal government trust fund. From the point of view of the cash statement, transactions between the federal government proper and the District are intra-governmental transactions and are therefore excluded. Under Commerce definitions, the District is classified with state and local governments rather than as part of the federal government.

Grants to territorial governments are unilateral transfers to abroad and are included as part of Purchases of goods and services.

TABLE 9

Grants-in-Aid to State and Local Governments:
Amounts Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953

(millions of dollars)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Grants by general government agencies:			
To District of Columbia	16		16
To states[a]	2,682	2,682	2,682
Grants by government enterprises	26	26	26
Total	2,724	2,708	2,724

[a] Excludes an estimated $37 million of grants to territorial governments.

PURCHASES OF GOODS AND SERVICES

Since the government accounts do not provide a breakdown of expenditures by object, the Commerce Department estimates total purchases of goods and services by a "residual" method. Beginning with total conventional statement expenditures as reported monthly by the Treasury, various expenditures are eliminated. Then additions are made to the residual thus obtained.

I used basically the same process in preparing Table 10. However, the table itself shows not the statistical procedure but the end results. It shows the estimated amount and composition of purchases of goods and services (national income accounting definition) in each of the three statements in fiscal year 1953.

The expenditures item Purchases of goods and services refers principally to purchases by general government agencies. It also includes, however, the capital formation of government enterprises—their purchases of newly produced fixed assets and their net inventory increase. These components, which were taken from Tables 2 and 5, are shown on lines 1 through 6.

With regard to general government purchases, the item includes:

1. Gross purchases from the domestic economy of all types of currently produced goods and services, minus a certain class of general government sales. This small deduction, shown on line 24, is explained on page 180 in connection with the discussion of other domestic sales by general government.

2. Net purchases from abroad. In this case, purchases refer to purchases of all kinds of goods and services, whether currently produced or not, and also to unilateral transfers to abroad. Netted against purchases in this broad sense are all general government sales to abroad, sales being defined in this context to include also unilateral receipts from abroad. There is nothing in general government net purchases from abroad, either positive or negative, that is conceptually a part of the gross national product. However, the inclusion of these transactions as a component of Purchases of goods and services serves to offset the inclusion of the same transactions with opposite signs in Net foreign investment.

In Table 10 some of the government's unilateral transfers to abroad are shown explicitly on lines 16 through 19. (In the Commerce statement, Mutual Security Agency grants are given the same timing as in the balance of payments statement, so as

TABLE 10

Purchases of Goods and Services:
Amounts Included on Expenditures Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953

(millions of dollars)

		STATEMENT		
		Conventional	*Cash*	*Commerce*
	Government enterprise purchases of newly produced fixed assets:			
1.	Category I	293	293	293
	Category II			
2.	Post Office	10	10	10
3.	Bonneville Power Administration	53	53	53
4.	Inventory increase, Category I government enterprises	1,260	1,260	1,260
5.	Increase in CCC commodity loans (excluding tobacco)	519	519	519
6.	Increase in commodity loans guaranteed by CCC			230
7.	Panama Canal Company accrued credit for tolls on U.S. government vessels			6
8.	Retirement deductions from salaries of general government employees	311		311
9.	Federal government contribution to civil service retirement fund on behalf of general government employees	240		240
10.	Federal government contribution to National Service Life Insurance fund	84		84
11.	Estimated amount of current overpayments that will be established by renegotiation of war contracts	100	100	
12.	Purchases offset in conventional statement by sales credited against appropriations			42
13.	Less repayments to lapsed appropriations and miscellaneous other refunds of federal payments included on receipts side of conventional and cash statements			−102
14.	Purchases of goods and services by trust funds		127	127
15.	Acquisition of silver			32
16.	Mutual Security Agency grants	1,292	1,292	1,416
	Transfer payments to persons not residing in continental United States:			
17.	From social insurance trust funds		34	34
18.	From general and special funds	9	9	9
19.	Grants-in-aid to territorial governments	37	37	37

TABLE 10 (continued)
(millions of dollars)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
20. Residual	54,139	54,139	54,139
21. Adjustment of purchases from corporations to an accrual basis			−676
22. Other timing adjustments			71
Total—gross	58,347	57,873	58,135
23. Less sales to abroad			−315
24. Less domestic sales of surplus consumption goods and surplus materials			−62
Total—net	58,347	57,873	57,758

to offset this item precisely as it is included in Net foreign investment.) Other transfers to abroad and ordinary purchases from abroad are included implicitly in the residual on line 20. Sales to abroad, as defined above, are deducted on line 23. The other entries in Table 10, and most of the residual item, refer to purchases of currently produced goods and services from the domestic economy.

Line 7 is explained on page 154 and lines 8 and 9 on page 162.

The federal government's contribution to the National Service Life Insurance fund (line 10) is, in the Commerce statement, a supplement to the wages and salaries of government employees—i.e. members of the armed forces. It is excluded from the cash statement as an intra-governmental transfer of funds.

Line 11 shows the amount of conventional and cash statement expenditures on war contracts in fiscal 1953 which, according to an estimate used by the Commerce Department, will later be established as overpayments through renegotiation of war contracts. This amount is excluded from Commerce statement purchases, since conceptually they refer to goods acquired by the government valued at correct prices. When the amount of overpayments is known, purchases are adjusted retroactively. In the meantime an estimate is used. In the conventional and cash statements overpayments are automatically counted as expenditures and the refunds that are later made to the government are counted as conventional and cash statement receipts at the time they are received.

The Commerce statement entry on line 12 arises by virtue of the fact that the gross expenditures of the general and special funds as included in the conventional (and cash) statements are not really quite gross. Some general government sales are credited against appropriations. This "obliterates" an equivalent amount of purchases. This amount of purchases is, however, included in Commerce statement purchases.

The entry on line 13 also has to do with the accounting practice of crediting certain receipts against expenditures. When the government obtains reimbursements from the public for monies erroneously paid out, these reimbursements are ordinarily credited against the appropriation accounts concerned. This automatically corrects expenditures for overpayments and, from the point of view of the Commerce statement, is conceptually adequate treatment. However, when reimbursements are made to appropriation accounts no longer active, they are included in conventional receipts rather than as reductions of expenditures. Therefore, such repayments to lapsed appropriations and some similar refunds are explicitly deducted from expenditures in the Commerce statement column.

Purchases of goods and services by trust funds, line 14, are in cash and Commerce expenditures but not conventional.

Line 15 shows the acquisition of monetary silver, which is treated like any other commodity in the national income accounts. In the Treasury accounts the acquisition of silver is treated not as an expenditure but as the exchange of one kind of money for another.

Lines 21 and 22 show timing adjustments. Purchases in the conventional statement refer to cash disbursements.[7] Conceptually, in the Commerce statement, purchases are on an accrual basis—purchases of goods being counted when the goods are delivered and purchases of services being counted when the services are performed. The Commerce Department estimates the difference between disbursements and accruals for certain kinds of expenditures where the difference is thought to be significant and where information exists for making such estimates. Then the difference is added to or subtracted from total purchases as derived from the conventional statement.

The main timing adjustment is that which converts purchases from corporations from a cash to an accrual basis. It is estimated from corporation records. Payments to corporations may differ

[7] Total conventional statement expenditures are on a cash disbursements basis except for the inclusion of a few items on an accrual basis. The latter are among the nonpurchase items that are deducted in arriving at purchases by the residual method.

from deliveries either because they are made after goods are delivered or because, as in the case of some military contracts, they are made prior to delivery.

Other timing adjustments may vary somewhat from year to year as they are required. The other timing adjustments made for fiscal 1953, and combined in one figure on line 22, had the effect of replacing certain conventional and cash statement expenditures by Commerce statement expenditures differently timed, as follows:

Included in conventional and cash statements	*Included in Commerce statement*
Government agencies' cash disbursements to the CCC for commodities	Value of commodities delivered by the CCC to government agencies
Disbursements of retroactive combat pay	Amount of combat pay earned that was later paid retroactively
Disbursements to Bureau of Internal Revenue of income tax withheld from military pay	Amount of income tax withheld from military pay
Military payments certificates issued to disbursing officers for payment to U.S. personnel employed in foreign countries	Military payments certificates paid by disbursing officers to U.S. personnel in foreign countries

CONVENTIONAL AND CASH STATEMENT EXPENDITURES NOT FALLING WITHIN COMMERCE STATEMENT CLASSIFICATION OF EXPENDITURES

Loans, except for those treated as part of the inventory increase of the Commodity Credit Corporation, are excluded from Commerce statement expenditures. So are purchases of land and used assets. The other entries in Table 11 are of a miscellaneous nature.

The entries on lines 1 through 22 have already been mentioned or have been shown in previous tables.

The federal government's contribution to the railroad retirement fund for past military service credits of railroad workers is excluded from the Commerce statement because, unlike the government's contributions to the civil service retirement fund and National Service Life Insurance fund, it is not a supplement to the current wages and salaries of government employees.

The District of Columbia's payments to the public, included among trust fund expenditures in the cash statement, are not included in the Commerce statement because the District is classified among state and local governments in the national income accounts rather than as part of the federal government.

Line 25 refers to financial transactions of the trust funds that are not relevant for the Commerce statement.

TABLE 11

Conventional and Cash Statement Expenditures
Not Falling within Commerce Statement Classification of Expenditures,
Fiscal Year 1953
(millions of dollars)

		STATEMENT	
		Conventional	*Cash*
	Loans:		
1.	Net loans of Category I government enterprises	536	536
	Loans of Category II government enterprises:		
2.	Gross loans of Rural Electrification Administration	231	231
3.	Net loans of federal home loan banks		81
4.	Net loans of banks for cooperatives		−22
5.	Net loans of Federal Deposit Insurance Corporation		2
	General government loans:		
6.	Gross loans to District of Columbia	1	
7.	Other (partly gross, partly net)	487	487
8.	Net loans of federal land banks		89
	Purchase of land and second-hand assets:		
9.	Purchase of land by general government agencies	72	72
10.	Net purchase of land and second-hand assets by Category I government enterprises	2	2
11.	Positive component of Panama Canal Company net reimbursement to Treasury for cost of Canal Zone Government[a]	10	
12.	Adjustment of accrued credit for tolls on U.S. government vessels to cash basis[b]	2	
13.	Current deficit of federal land banks		13
	Adjustment of government enterprise net expenditures from accrual to cash basis:		
14.	Category I[c]	−131	−131
	Category II		
15.	Post Office	18	18
16.	Federal Crop Insurance Corporation	−1	−1
17.	Federal home loan banks		−103
18.	Banks for cooperatives		−3
19.	Federal Deposit Insurance Corporation		−4
20.	Adjustment of federal land banks net expenditures to cash basis		−31
	Net funds applied to financing quasi-governmental enterprises not clearing through accounts of U.S. Treasurer		
21.	Federal home loan banks		−41
22.	Banks for cooperatives		26
23.	Federal contribution to railroad retirement fund	33	
24.	District of Columbia payments to the public		137

(*continued on next page*)

TABLE 11 (continued)
(millions of dollars)

	STATEMENT	
	Conventional	*Cash*
25. Withdrawals of funds held in trust for foreign countries, Indian tribes, etc.		218
26. Adjustment of trust fund expenditures to *Daily Treasury Statement* basis		95
27. Net expenditures of deposit funds (excluding deposit funds of quasi-governmental enterprises)		−470
28. Adjustment of expenditures from checks issued to checks paid basis		312
29. Redemption of IMF special notes		90
30. Less repurchases by IMF of special notes		−118
Total	1,260	1,485

[a] Sum of lines 15 and 20, Table 2.
[b] Line 8, Table 2.
[c] Excludes lines 17 through 20, Table 2.

Line 26 adjusts trust fund expenditures to the *Daily Treasury Statement* basis. What this amounts to is an adjustment from a consistent checks-issued basis to a not quite so consistent checks-issued basis.

Expenditures in the conventional statement and the expenditures of the individual trust funds are shown in the budget document on the basis of checks issued as reported by federal agencies after they have had time to assemble accurate figures. In fiscal 1953 and previously, the totals were adjusted to the *Daily Treasury Statement* basis. In the *Daily Treasury Statement*, expenditures were stated on the basis of daily reports from the various agencies, which reports were largely on a checks-issued basis but not uniformly so. Because of the difficulties inherent in prompt daily reporting by all federal agencies, including those engaged in worldwide activities, some of the expenditures in the *Daily Treasury Statement* were on a delayed-checks-issued basis, some on a checks-paid basis, and some even on an accrual basis. (This procedure was changed in February 1954. The *Daily Treasury Statement* now shows expenditures on the basis of withdrawals from accounts of the Treasurer of the United States, while the new *Monthly Statement of Receipts and Expenditures of the United States Government* and the budget document report expenditures on a uniform checks-issued basis.)

It may be noted that Table 11 does not show the adjustment of conventional statement expenditures to the *Daily Treasury Statement* basis. This is because all the statements include this adjustment. It is implicitly included in the residual in Table 10. Being concerned with calendar years and quarters, the Commerce Department derived fiscal year 1953 purchases from the *Daily Treasury Statement* rather than from the budget document.

The net expenditures of deposit funds, the "bank accounts" of government agencies held with the Treasurer, are a component of the cash statement, except that the deposit funds of quasi-governmental enterprises are excluded (the transactions of these agencies being incorporated in the cash statement in the manner explained on page 158).

Line 28, which adjusts expenditures from the *Daily Treasury Statement* checks-issued basis to a checks-paid basis, is a component only of the cash statement. In this statement, the expenditures total refers to cash expenditures in the sense of checks paid. It may be noted that, within the concept of a cash basis of reporting transactions, there is some leeway for differences in timing.

Lines 29 and 30 show the transactions in the special notes, International Monetary Fund series, that are relevant for the cash statement.

In 1947 the United States subscribed $2,750 million to the capital of the International Monetary Fund. Of this amount, $968 million was paid in cash drawn from the Exchange Stabilization Fund. It was treated as an expenditure in the cash statement. The remainder was paid in the form of special non-interest-bearing notes, $832 million of which was paid from the Exchange Stabilization Fund and $950 million from the general fund. The general fund portion was counted as a conventional budget expenditure. Neither part of this payment in the form of securities was relevant for the cash statement.

Since that time these notes have had no further effect on the conventional statement, but they do affect the cash statement. From time to time the IMF redeems some of the notes for cash, and these redemptions are treated as cash statement expenditures. But when the IMF's working balance of United States dollars becomes higher than necessary, it is legally required to use the excess cash to repurchase these notes. These repurchases of notes—which return cash to the United States government—are treated as a deduction from cash statement expenditures. Thus, cash statement expenditures include redemptions minus repurchases, or, in other words, net redemptions, of these special notes by the IMF.[8]

In the Commerce statement the subscription to the IMF is excluded since it is a financial transaction.

Receipts

Like their expenditures sides, the receipts sides of the conventional, cash, and Commerce statements differ as to coverage and timing. These differences are shown in Tables 12 through 16. Differences as to coverage are examined in connection with the pertinent tables, but timing differences are more conveniently discussed together.

In the fiscal year 1953 conventional and cash statements, receipts, taken together, were on the *Daily Treasury Statement* basis. This meant that they were on the basis of deposits to accounts of the Treasurer of the United States. Detail by type of receipt, however, could not be stated on the same basis, for receipts were not fully classified by type at that stage of the collections process. Many types of receipt had to be stated on other than a deposits basis and, as a result, $49 million of internal revenue was shown as "not otherwise classified," and the amounts necessary to adjust general and special fund receipts and trust fund receipts to the *Daily Treasury Statement* basis were included as components of the receipts sides of the statements concerned.[9]

[8] The subscription to the International Bank for Reconstruction and Development, part of which was also paid in non-interest-bearing notes, has no effect on the cash statement at the present time. All the notes were redeemed shortly after their issuance and were at that time counted as cash statement expenditures. The IBRD does not repurchase these notes because, unlike the IMF, it is permitted to invest its excess funds in bonds and other interest-bearing securities.

[9] Specifically, the receipts detail shown in the budget document was obtained as follows:

Internal revenue: Federal Insurance Contributions Act tax (contributions for old-age and survivors insurance), estimate of deposits in fiscal 1953 as adjusted to correct estimates for previous years; other employment taxes, deposits basis; corporate profits taxes, excise taxes, and estate and gift taxes, as shown in Bureau of Internal Revenue collections reports, which were on a "returns filed" basis; individual income tax withheld, obtained as a residual by deducting the adjusted estimate of FICA tax withheld from wages from a deposits figure including both; individual income tax not withheld, obtained as a residual by deducting corporate profits taxes (returns filed basis) and adjusted estimate of FICA tax paid by the self-employed from a deposits figure including the three; and internal revenue not otherwise classified, obtained as a residual by deducting excise taxes and estate and

In the reconciliation tables, the entries in the conventional and cash columns either were taken from the detail in the budget document or are consistent with it. Therefore, the timing basis varies slightly among the various types of receipts. Internal revenue not otherwise classified is included with excise taxes, since the nature of this residual in fiscal 1953 was such that it would be composed principally of excise taxes. The adjustments to the *Daily Treasury Statement* basis are shown as separate components of conventional and cash receipts that are not relevant for the Commerce statement.

There are no timing differences between positive receipts as shown in the conventional and cash statements. There is, however, one difference with regard to tax refunds, which are counted as deductions from receipts. Excess profits tax refund bonds *issued* are counted as a deduction from conventional receipts; excess profits tax refund bonds *redeemed* are counted as a deduction from cash

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gift taxes (returns filed basis) from a deposits figure including these two types of receipt and unclassified receipts such as, for instance, checks received without returns.

Customs duties, deposits basis.

Miscellaneous budget receipts, warrants issued basis. The adjustment of general and special fund receipts to the *Daily Treasury Statement* basis referred almost entirely to miscellaneous budget receipts. (It also adjusted refunds of internal revenue from the checks-issued basis as reported by the Bureau of Internal Revenue to the slightly different *Daily Treasury Statement* checks-issued basis.)

Trust fund receipts, various bases.

Since fiscal 1953 various changes have been made in governmental accounting for receipts. Receipts in the conventional and the Budget Bureau's cash statements no longer follow the *Daily Treasury Statement* but instead the new *Monthly Statement of Receipts and Expenditures of the United States Government*. In the latter, receipts are shown as of the time they are reported by collecting officers as being received. Detail by major types of receipts is reported on the same basis except that the distribution between individual income tax and FICA tax is estimated. FICA tax receipts continue to be estimated and adjusted in the same way as formerly, as they are received in combination with individual income tax receipts and as the exact amount can only be determined later from wage and self-employment income records of the Social Security Administration. Withheld and nonwithheld individual income tax receipts are obtained as residuals.

With regard to internal revenue receipts, the new basis of presentation (as reported by collecting officers) amounts to the same concept as the previous deposits basis, for Internal Revenue Service collections reports are now based on deposits of cash rather than receipt of tax returns. (The main difference is that withheld taxes and many excises are deposited currently by taxpayers but the quarterly returns on which they are reported are not received by the Internal Revenue Service until later.)

receipts. In fiscal 1953 the amounts involved were negligible. In fact, the amount issued was a small negative figure, probably representing some sort of bookkeeping adjustment.

Conceptually, in the Commerce statement, personal taxes are on a cash payments basis, as are employees' contributions for social insurance and contributions by the self-employed; while corporate taxes, indirect business taxes, and employers' contributions for social insurance are on an accrual basis.

The taxes and social insurance contributions paid by individuals are on a cash basis for articulation with personal income. In the national income accounting structure, national income refers to income accrued (earned), but personal income refers to income received.

The cash payments basis is clear with regard to the income tax that taxpayers personally pay by check and with regard to the social insurance contributions of the self-employed. The income tax and social insurance contributions withheld from employees' wages are timed to coincide with disbursement of the wages to which they relate, wages being on a cash disbursements basis in personal income. It is considered that the employee receives his wages inclusive of the withheld amounts and simultaneously makes payment to the government.

It may be noted that the Commerce statement's cash basis for these payments (as of the time wages are received) can be quite different from the conventional and cash statements' cash basis (as of the time employers deposit withholdings in Treasury accounts).

Corporate profits taxes are presented in the Commerce statement as of the time the profits to which they apply are earned, indirect business taxes as of the time taxed goods are sold, and employer contributions for social insurance as of the time the wage expense to which they are related is accrued.

It may be seen that employer contributions for social insurance are timed to coincide with the earning of wages, while employee contributions are timed to coincide with the disbursement of wages. Though this distinction exists in concept, the difference between contributions on wages paid and on wages earned is usually too small and difficult to estimate to be recognized statistically. Statistically, most contributions for social insurance are on a cash (wage disbursements) basis in the Commerce statement, but it should also be said that the difference between these and accrual-based estimates would be negligible.

Refunds of personal taxes, contributions for social insurance, and indirect business taxes are counted as offsets to payments as of the time cash refunds are made. Conceptually, refunds of indirect business taxes and employer contributions for social insurance should be used to adjust overstatements of accruals in past periods, but statistically no basis exists for allocating such refunds to the time periods for which accruals were overstated.

Accruals of corporate taxes are estimated in such a way that refunds *are* adjusted for retroactively, but no figures for refunds are explicit in the Commerce statement.

The Commerce statement's personal and business nontaxes, consisting of numerous small components, are taken from the budget document's detail on miscellaneous budget receipts and trust fund receipts and therefore have the same timing. This detail was on a "warrants issued" basis in fiscal 1953[10] but is now on a cash collections basis.

Most of the entries needed for the Commerce statement columns of Tables 12 through 15 were not available with the Commerce statement timing in published fiscal-year sources. Those available were estate and gift taxes, refunds of personal taxes, contributions for social insurance, indirect business taxes, personal and business nontaxes, and the federal government's lump-sum contributions to social insurance funds. The other entries were derived from Commerce Department worksheets. For the most part, they represent sums of seasonally unadjusted quarterly estimates for the relevant quarters. (Most of the Commerce Department's receipts estimates are derived, with various timing adjustments, from records of the Internal Revenue Service and of the agencies administering social insurance programs.)

As a simple summary statement it may be said that personal taxes and contributions for social insurance are on a cash basis in all three statements, while other receipts are on a cash basis in the conventional and cash statements and an accrual basis in the Commerce statement. However, the timing differences shown in the tables reflect also differences in possible interpretations of a cash basis and ordinary estimating errors.

PERSONAL TAXES AND NONTAXES

The profits taxes of mutual life insurance companies are included with personal taxes in the Commerce statement because the income

[10] Covering warrants were issued subsequent to the actual collection of money.

of these companies is imputed to individuals. In order to follow the Commerce statement classification of receipts, these taxes are included as personal taxes in all three columns of Table 12 and are excluded from corporate taxes in Table 13. The estimated amount of such taxes, taken from Commerce worksheets, was used to reduce corporate profits taxes as shown in the conventional and cash statements without worrying about any timing difference that might exist.

TABLE 12

Personal Taxes and Nontaxes:
Amounts Included on Receipts Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953
(millions of dollars)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
1. Individual income tax withheld	21,172	21,172	21,732
2. Individual income tax not withheld	11,306	11,306	11,385
3. Less refunds	–2,695	–2,695	–2,695
4. Profits tax, mutual insurance companies	118	118	118
5. Estate and gift taxes	891	891	891
6. Less refunds	–10	–10	–10
Personal nontaxes (fines, fees, donations, and sales of goods and services currently produced by general government agencies):			
7. General and special fund receipts	49	49	49
8. Trust fund receipts		19	19
Total	30,831	30,850	31,489

The individual income tax refunds shown in Table 12 include $3 million of explicit refunds of old-age and survivors insurance contributions. The reason these refunds are included here rather than being shown in Table 15, Contributions for Social Insurance, is that the bulk of OASI contribution refunds are handled implicitly through the individual income tax and are not extricated on the receipts sides of any of the three statements.[11]

[11] Refunds of OASI contributions are made only to employees—not to employers. They come about when an employee works for two or more employers during the year and as a result more than the maximum legally taxable amount of his wages is taxed. He gets a refund but the employer does not.

These refunds are paid in several different ways. An employee can credit OASI overpayments against his income tax. Thus the income tax payment he makes in March or thereabouts is reduced by the OASI credit, or else

Personal nontaxes in Table 12 and business nontaxes in Table 14 include payments to the government that resemble taxes in that they are in the nature of current transfers to the government without a current and specific *quid pro quo.* They also include certain sales by general government agencies.

Domestic sales by general government agencies fall into three classes insofar as their treatment in the national income accounts is concerned. (All general government sales to abroad are deducted from Purchases of goods and services, as explained on page 167.)

1. Sales of land and used assets are simply excluded from government receipts and from the purchases of the other sectors.

2. Sales of surplus consumption goods and surplus materials are deducted from government purchases of goods and services. The reasoning is that purchases of these non-currently produced items may be implicitly included in the estimates of consumer expenditures and business's inventory change and, if so, the gross national product would be overstated unless they were deducted somewhere on the product side of the national income and product account. Deducting them from government purchases has the advantage of maintaining conformity to this extent between the deficit or surplus shown in the government account in the national income accounting structure and that in the official government statements.

3. Sales of goods and services currently produced by general government agencies are treated like tax receipts of the government and tax payments by persons and business. They cannot properly be treated as purchases by individuals and business because to do

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his income tax refund is raised by this amount. The bulk of the OASI refunds are made in this manner, and they are implicitly accounted for in both Treasury and Commerce income tax and income tax refund figures. Some of the refunds, however, are made by separate checks. These the Commerce statement includes with income tax refunds. For the sake of comparability, they are also included with income tax refunds in the conventional and cash columns of Table 12.

Until 1952 the general fund of the Treasury "took a loss" for OASI refunds, both through reduced income tax net receipts and through the separate refund checks. The OASI fund was not affected by them. Beginning in 1952, however, the Treasury began requiring reimbursement by the OASI fund. The Treasury now estimates the amount of OASI refunds that have been made in one way or another in the past year. Then that amount is transferred from the OASI fund to the general fund. It is counted as a receipt in the conventional statement but is excluded from the cash and Commerce statements as an intra-governmental transfer (see line 20 of Table 16).

so would constitute double counting, since the value of all general government production is already taken account of in the gross national product by including the compensation of general government employees as a component of government purchases of goods and services. On the other hand, these payments by individuals and business are relevant for the computation of personal saving and business profits. Accounting for them in the same way as for tax payments, instead of as purchases or ordinary business expenses, permits a correct computation of the GNP while at the same time preventing any distortion in the estimates of savings and profits on this account.

CORPORATE PROFITS TAXES

From the perspective of all three statements, the Federal Reserve System is a part of the public rather than of the government. The transactions of the Federal Reserve System affect the statements only in that the portion of the System's net earnings legally required to be transferred to the Treasury is included as a component of receipts in each of them. In the Commerce statement it is included on an accrual basis with corporate profits taxes. In the conventional and cash statements it is included among miscellaneous budget receipts on a cash basis. The latter amount is included in the conventional and cash columns of Table 13 for comparability with corporate profits taxes as defined in the Commerce statement.

TABLE 13

Corporate Profits Taxes:
Amounts Included on Receipts Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953

(millions of dollars)

		STATEMENT		
		Conventional	*Cash*	*Commerce*
1.	Corporate profits taxes (excluding taxes on profits of mutual insurance companies)	21,477	21,477	
2.	Less: Ordinary refunds	−356	−356	20,252
3.	Less: Excess profits tax refund bonds	[a]	[b]	
4.	Federal government share of Federal Reserve System earnings	298	298	314
	Total	21,419	21,419	20,566

[a] EPT bonds issued: −$53,361. Add (see page 176).
[b] EPT bonds redeemed: $249,619 (see page 176).

INDIRECT BUSINESS TAXES AND NONTAXES

See page 178 for discussion of nontaxes, including those paid by business.

CONTRIBUTIONS FOR SOCIAL INSURANCE

In the Commerce statement, contributions for social insurance are defined to include only contributions from residents of the continental United States. Therefore, for the sake of comparability, the cash column of Table 15 shows the amounts presented in the budget document as reduced by rough estimates of contributions by nonresidents. These estimated amounts of receipts from nonresidents are included in Table 16 as part of sales to abroad.

With contributions in the cash statement thus reduced to conform to the Commerce statement definition, the only difference as to coverage between contributions in the two statements is that cash statement receipts exclude contributions from the federal and District of Columbia governments and from federal and District employees. These are regarded as intra-governmental transfers from the perspective of the cash statement.

Conventional receipts include only a small amount definable as contributions for social insurance. However, about $5 billion of such receipts does "wash through" the receipts side of the conventional statement. Those contributions that are collected by the Internal Revenue Service—employment taxes—are paid into the

TABLE 14

Indirect Business Taxes and Nontaxes:
Amounts Included on Receipts Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953
(millions of dollars)

		STATEMENT		
		Conventional	*Cash*	*Commerce*
1.	Excise taxes	9,992	9,992	9,991
2.	Less: Refunds	−66	−66	−66
3.	Customs duties	613	613	619
4.	Less: Refunds	−17	−17	−17
	Business nontaxes (fines, fees, donations, and sales of goods and services currently produced by general government agencies):			
5.	General and special fund receipts	362	362	362
6.	Trust fund receipts		30	30
	Total	10,884	10,914	10,919

TABLE 15

Contributions for Social Insurance:
Amounts Included on Receipts Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953
(millions of dollars)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
1. Old-age and survivors insurance[a]		4,109	3,938
2. State unemployment insurance[a]		1,365	1,360
3. Federal unemployment tax	276	276	271
4. Less: Refunds	−2	−2	−2
5. Railroad retirement insurance	1	626	637
6. Less: Refunds	−1	−1	−1
7. Railroad unemployment insurance		25	24
Federal civilian employee retirement systems:			
Deductions from employees' salaries:			
8. Federal employees[a]			413
9. District of Columbia employees			3
10. Federal government contribution			323
11. D.C. government contribution			2
Veterans life insurance funds:			
12. Employee contributions[a]		427	493
13. Federal government contribution			84
Total	274	6,825	7,545

[a] Excludes estimated amounts received from U.S. territories and possessions, as follows: OASI contributions, $21 million; deposits by territorial governments in state unemployment insurance fund, $6 million; retirement deductions from federal employees' salaries, $3 million; and contributions to veterans' life insurance funds, $1 million.

general fund and therefore are counted as conventional statement receipts. These are the Federal Insurance Contributions Act tax (contributions for old-age and survivors insurance),[12] the railroad retirement tax, and the federal unemployment tax. The first two types are then appropriated to the trust funds concerned and are treated as deductions from conventional receipts. ($1 million of railroad retirement tax receipts seems to have got left behind in fiscal 1953, and this is faithfully included on line 5 in the conventional column.) The federal unemployment tax remains as a component of conventional receipts. This "washing through" process shows up more clearly in the summary receipts table, Table 18, than in Table 15.

[12] Excluding the contributions by state and local governments on behalf of their employees. These are deposited directly in the trust fund.

CONVENTIONAL AND CASH STATEMENT RECEIPTS NOT FALLING WITHIN COMMERCE STATEMENT CLASSIFICATION RECEIPTS

With the minor exceptions noted above, the receipts side of the Commerce statement includes only taxes and social insurance contributions. Conventional and cash receipts include a variety of other types of receipts, some of which are irrelevant for the Commerce statement and some of which serve to reduce its expenditures side as compared with the expenditures sides of the conventional and cash statements.

Lines 1 through 11 in Table 16 show the kinds of receipts that are deducted on the expenditures side of the Commerce statement, though usually not with the same timing. These have all been discussed in connection with the expenditures classes concerned.[13]

Lines 12 through 28 show the amounts that are irrelevant for the Commerce statement. Of these, intra-governmental receipts are included among conventional receipts but not among cash receipts, various trust fund receipts are included among cash receipts but not among conventional receipts, and seigniorage on silver is excluded from cash receipts as not representing a cash receipt from the public.

Summary Tables

Tables 17 and 18 summarize the individual expenditures and receipts tables. However, the summary tables are organized to show only differences among the *totals* in the three statements. They do not necessarily follow the Commerce statement classifications of receipts and expenditures.

Some of the differences reflected in the individual tables are canceled out in the summary tables. For instance, the profits of Army post exchanges and Navy exchanges are not shown because they are not counted at all in the conventional and cash statements and are counted both positively and negatively among Commerce statement expenditures. The net reimbursement by the Panama Canal Company is shown as a part of the conventional statement only. In the Commerce statement the inclusion of one component of the reimbursement in Subsidies less current surplus of govern-

[13] It may be noted that the amount of "sales" to abroad included in cash statement receipts is not the same as the amount deducted from Commerce statement expenditures. The former is a crude estimate mainly derived from a tabulation of miscellaneous budget receipts. The latter is the amount actually included in Net foreign investment.

TABLE 16

Conventional and Cash Statement Receipts
Not Falling within Commerce Statement Classification of Receipts,
Fiscal Year 1953

(millions of dollars)

		STATEMENT	
		Conventional	*Cash*
1.	Interest received from the Rural Electrification Administration	36	36
2.	Interest received from the public	171	171
	Deposits of receipts by Category II government enterprises:		
3.	Bonneville Power Administration	40	40
4.	Boulder Canyon Project	6	6
5.	Navy ships' stores	8	8
	"Sales" to abroad:		
6.	Contributions for social insurance from territories (excluding federal retirement systems)		28
7.	All other	154	154
8.	Domestic sales of surplus consumption goods and surplus materials	62	62
9.	Refunds to the government under renegotiated contracts	39	39
10.	Less: Refunds from the government under renegotiated contracts	—4	—4
11.	Repayment to lapsed appropriations and miscellaneous other refunds to the government	102	102
	Intra-governmental interest receipts:		
12.	From Category I government enterprises	134	
13.	From revolving funds not treated as government enterprises	7	
14.	From Boulder Canyon Project	3	
	Repayment of loans:		
15.	By District of Columbia	[a]	
16.	All other	209	209
17.	Domestic sales of land and used assets	62	62
	Intra-governmental reimbursements to Treasury:		
18.	From Panama Canal Company for cost of Canal Zone Government	6	
19.	From OASI fund for administrative expenses	23	
20.	From OASI fund for prior year refunds of employment taxes	33	
21.	From D.C. for maintenance of D.C. inmates in federal prisons	1	
22.	Seigniorage	56	
23.	Less: Refunds of monies erroneously received and covered	—1	—1
24.	Adjustment of conventional receipts to *Daily Treasury Statement* basis	40	40

(*continued on next page*)

TABLE 16 (continued)

	STATEMENT	
	Conventional	*Cash*
25. District of Columbia receipts from the public		136
26. Receipt of funds to be held in trust for foreign countries, Indian tribes, etc.		222
27. Adjustment of trust fund receipts to *Daily Treasury Statement basis*		−37
Total	1,187	1,273

[a] $500,000.

TABLE 17

Summary Reconciliation of Expenditures Sides of Conventional, Cash and Commerce Statements, Fiscal Year 1953

(millions of dollars)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Loans from general, special, and revolving funds (excluding CCC loans on commodities other than tobacco):			
To District of Columbia	1		
All other	1,254	1,254	
Increase in guaranteed commodity loans			230
Purchase of land and second-hand assets	74	74	
Public debt interest paid to trust funds	1,094		
Public debt interest paid to quasi-governmental enterprises	41		
Interest on savings bonds and Treasury bills	1,259	540	1,259
Net expenditures, as shown on books of U.S. Treasurer, of federal home loan banks, banks for cooperatives, and Federal Deposit Insurance Corporation (excluding interest transactions with Treasury):			
Net interest paid to public		−12	−12
Current deficit		−48	−48
Net loans		61	
Adjustment to cash basis		−110	
Net funds applied to financing not clearing through accounts of U.S. Treasurer		−15	
Net expenditures, as shown on books of U.S. Treasurer, of federal land banks (excluding interest transactions with Treasury)		45	

(continued on next page)

TABLE 17 (continued)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Panama Canal Company net reimbursement to Treasury for cost of Canal Zone government	6		
Interest paid to Treasury by revolving funds and Boulder Canyon Project	144		
Miscellaneous components relating to government enterprises:			
Net interest paid to public by Rural Electrification Administration			−38
Current deficit of Navy ships' stores			−8
Less: Operating receipts of Bonneville Power Administration and Boulder Canyon Project			−49
Adjustments of net expenditures to cash basis:			
Category I government enterprises	−131	−131	
Post Office	18	18	
Federal Crop Insurance Corporation	−1	−1	
Retirement deductions from salaries of federal government employees	418		418
Federal government contributions to trust funds:			
Civil service retirement fund	323		323
National service life insurance fund	84		84
Railroad retirement fund	33		
Grants-in-aid to District of Columbia	16		16
Armed forces leave bonds	[a]	24	24
Adjusted service bonds		1	1
Redemption of IMF special notes		90	
Less: Repurchase by IMF of special notes		−118	
Estimated current overpayments which will be established by renegotiation of war contracts	100	100	
Purchases offset in conventional and cash statement by sales credited against appropriations			42
Less: Repayments to lapsed appropriations and miscellaneous other refunds of federal payments included on receipts side of conventional and cash statements			−102
General, special, and revolving fund expenditures common to all three statements	69,249	69,249	69,249
Adjustment of purchases to an accrual basis			−481
Benefits from social insurance trust funds		5,114	5,114
Purchases of goods and services by trust funds		127	127
District of Columbia payments to the public		137	
Withdrawals of funds held in trust for foreign countries, Indian tribes, etc.		218	

(*continued on next page*)

TABLE 17 (continued)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Adjustment of trust fund expenditures to *Daily Treasury Statement* basis		95	
Net expenditures of deposit funds (excluding deposit funds of quasi-governmental enterprises)		–470	
Adjustment of expenditures from checks-issued to checks-paid basis		312	
Acquisition of silver			32
Less: Interest receipts from public included on receipts side of conventional and cash statements			–171
Less: Sales to abroad			–315
Less: Domestic sales of surplus consumption goods and surplus materials			–62
Total	73,982	76,554	75,634

[a] –$725.
Note: Components may not add to totals because of rounding.

TABLE 18

Summary Reconciliation of Receipts Sides of Conventional, Cash, and Commerce Statements, Fiscal Year 1953

(millions of dollars)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Individual income tax (and tax on profits of mutual insurance companies)	32,596	32,596	33,235
Less: Refunds	–2,695	–2,695	–2,695
Estate and gift taxes	891	891	891
Less: Refunds	–10	–10	–10
Corporate profits taxes (excluding tax on profits of mutual insurance companies)	21,477	21,477	
Less: Ordinary refunds	–356	–356	20,252
Less: Excess profits tax refund bonds	[a]	[b]	
Excise taxes	9,992	9,992	9,991
Less: Refunds	–66	–66	–66
Customs duties	613	613	619
Less: Refunds	–17	–17	–17
Employment taxes received from territories	21	21	
Employment taxes received from continent	4,967	4,967	
Less: Appropriations to trust funds	–4,711		4,802
Less: Refunds	–3	–3	–3

(continued on next page)

TABLE 18 (continued)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Contributions to federal civilian employee retirement systems:			
Deductions from employees' salaries:			
Federal employees (continental only)			413
D.C. employees			3
Federal government contributions			323
D.C. government contributions			2
Federal government contributions to National Service Life Insurance fund			84
Other contributions to social insurance funds:			
Territorial		7	
Continental		1,861	1,921
Federal government share of Federal Reserve System earnings	298	298	314
Personal and business nontaxes:			
General and special fund receipts	411	411	411
Trust fund receipts		49	49
Interest received from revolving funds and Boulder Canyon Project	144		
Interest received from Rural Electrification Administration	36	36	
Interest received from the public	171	171	
Deposits of receipts by Category II government enterprises	54	54	
Repayment of loans:			
By District of Columbia	a		
Other	209	209	
"Sales" to abroad (excluding social insurance contributions from territories)	154	154	
Domestic sales of land and used assets	62	62	
Domestic sales of surplus consumption goods and surplus materials	62	62	
Intra-governmental reimbursements	63		
Refunds to the government under renegotiated contracts	39	39	
Less: Refunds from the government under renegotiated contracts	–4	–4	
Repayments to lapsed appropriations and miscellaneous other refunds to the government	102	102	
Less: Refunds of monies erroneously received and covered	–1	–1	

(*continued on next page*)

TABLE 18 (continued)

	STATEMENT		
	Conventional	*Cash*	*Commerce*
Seigniorage	56		
D.C. receipts from the public		136	
Receipts of funds to be held in trust for foreign countries, Indian tribes, etc.		222	
Adjustment of receipts to *Daily Treasury Statement* basis:			
General and special fund receipts	40	40	
Trust fund receipts		−37	
Total	64,593	71,283	70,519

[a] $500,000.
Note: Components may not add to totals because of rounding.

ment enterprises is offset by its inclusion with opposite sign under Purchases of goods and services.

No differences are shown with regard to the Postal Savings System. The conventional and cash statement payments of $62 million of public debt interest to the Postal Savings System (Table 7) minus their receipt of the Postal Savings System's net earnings (Table 6) equals, approximately, the $48 million of interest paid to the public that is counted as an expenditure in the Commerce statement (Table 7).

COMMENT

Solomon Fabricant, National Bureau of Economic Research

Since I agree with Gerhard Colm on most of the issues discussed by him, it is not easy for me to see them as controversial. But they are. A few comments on Colm's useful contribution may therefore be helpful.

The basic issue probably concerns the fraction of government production to be included in the net national product. That is, what part of government production of goods and services is "final" or "finished," on the one hand, and what part is "intermediate" or "unfinished," on the other. Not long ago, I think, it would have been denied by some that any part of government production was intermediate; all of government production should therefore be included in the net national product. I have the impression that the position of these persons has shifted somewhat. Those who include all of government product in the national product now offer as the basis for their procedure the argument that most (not all) of government product is final, that the error of including all is therefore modest, and that the task of measuring the precise fraction of intermediate government product would not be worth the effort even if that fraction could be determined with reasonable accuracy.

This position still needs justification. It is not obvious to me that only a minor proportion of government product is intermediate. In fact, we need some actual calculations. Before we can make these calculations, we need the criteria by which to judge whether a particular category of government product is to be classified as finished or unfinished. While some of us may not be particularly enamored of Simon Kuznets' criteria,[1] we should recognize that he has made a very real contribution by providing us with a target at which to shoot. We need serious discussion of these criteria; and this means grappling with actual figures and making a real effort to classify government product.

I suspect that such an effort would demonstrate that we can do better than use the present treatment of government product followed by the Department of Commerce and other agencies. I disagree with Colm when he states as his own conclusion that "such classification of government services would introduce sources of error which may be larger than the errors resulting from leaving the intermediate services of government in the national product or national income totals" (page 120). Surely a second approximation to the volume of final services of government is possible. Are there no government services now included in the national product total which everyone would agree are intermediate? Colm is less bold here than when he takes his position on the treatment of government property income.

However one may classify government production, a question arises on its valuation. Here I would go further than Colm. He states (page 118): "The time may have come when enough work on the evaluation of capital . . . has been done to justify a direct approach to this problem," that is, to include in the national product an imputed interest or rent on government-held capital assets. There is no question in my mind that the time has already come.

[1] "Government Product and National Income," in *Income and Wealth, Series I*, Cambridge, Eng., Bowes & Bowes for International Association for Research in Income and Wealth, 1951.

The work by Reeve and his colleagues, published in *Studies in Income and Wealth, Volume Twelve*, and Goldsmith's recent work on national wealth have given us the necessary foundation.

A smaller question arises in connection with the distribution of government services among the several categories of final product. As it is now set up, our classification of final products is confined to those originating in the business and family sectors. Consumer expenditures on education, for example, are not combined with government expenditures on education to yield a proper total. I was encouraged to see a beginning in this direction in the recent OEEC report by Gilbert and Kravis.

Many of the questions encountered in the treatment of government accounts arise because we are trying to do much more than obtain a national product or income aggregate. We have become interested in intersector relationships of various sorts. We want, for example, to know the net and gross flow of goods and services between sectors, and the flow of cash between sectors, intersector subsidies and transfers, and even intersector property and debt relationships. For many of these purposes it is hard to get along with a simple set of national accounts. As long as we try to do so much with so little, serious difficulties will plague us. The issues created by our efforts to cope with these difficulties will be finally resolved only by the elaboration of an interlocking set of accounts setting forth the sorts of thing now included not only in the usual set of national accounts, but also in moneyflows tables and input-output tables. A full set of such accounts would probably overwhelm us with its mass if we tried to use it on every occasion, but it would provide a sound basis for selection and abbreviation when applied to particular problems.

Since the discussion started by Colm and others at the first Income and Wealth Conference, there has been a fair amount of progress in the area covered by Colm's present paper. This progress is due not only to workers who have discussed concepts in the abstract but also to workers who have used concepts to grapple with statistical data. We owe a great deal to the efforts of Reeve and his colleagues and to Goldsmith, whom I have already mentioned. We owe a great deal also to the Government Division of the Bureau of the Census, to Copeland and Brill for their work on moneyflows, and to Leontief and the staff of the Bureau of Labor Statistics for their work on input-output. They have all contributed significantly to our knowledge of the place of government in the economy. I am glad to see Miss Young joining their ranks. Her very careful paper will be of real value to everyone concerned with the finances of the federal government.

HENRY S. BLOCH AND ALFRED LANDAU, United Nations

This discussion will present some of the problems of public sector comparisons which have arisen in United Nations' practice but will not deal with certain major conceptual issues raised by Gerhard Colm's paper.

His paper is particularly interesting because it reflects Colm's own practical experience in both national income accounting and budgeting work. The paper by Marilyn Young demonstrates a reconciliation of national accounts data with regular budget data, which is of interest to all those countries where reclassification is being undertaken either by statistical offices or central banks.

The first part of our discussion will serve as an illustration of how some of the issues discussed in these papers are objects of practical concern in several countries. The second part will deal with a few selected issues which frequently arise in our practice and which have a bearing on the subject.

THE RECLASSIFICATION "MOVEMENT"

The reclassification of budget accounts has assumed great importance for programming, not only in developed countries but also in the less developed countries. While functional budgeting will always continue to be a significant tool for presentation because of the administrative role of the budget, economic character classification is being used increasingly as an additional method. The economic character classification discussed here is principally inspired by national income accounting, but goes beyond that insofar as it includes debt and credit transactions and as it is more specific in dealing with the individual components of the major categories.

As far back as 1937, in the first volume of the Conference on Research in Income and Wealth, Colm discussed some of the basic issues involved in economic character classification of budgeting data.[1] The Fiscal Division of the Department of Economic

Note: The views expressed in this paper are the personal views of the authors and do not necessarily express an official position of the United Nations Secretariat.

[1] Gerhard Colm, "Public Revenue and Public Expenditure in National

Affairs of the UN published in 1951 a small volume entitled *Budgetary Structure and Classification of Government Accounts*,[2] in which it gave a model presentation of the public sector, based mainly on national accounts principles, accompanied by a discussion of the existing budget systems in some selected countries. The model presentation in this volume was inspired by a work of J. R. Hicks[3] which appeared in 1948. In spite of the broad title of Hicks' pamphlet, the subject matter deals principally with problems of presentation and not with budget execution. It is significant to note that in his concept of "reform," the question of presentation takes such a large place.

While Hicks does not refer to the Swedish experience specifically, there is no doubt that Sweden, especially after the budget reform in 1937, with its application of the principles of commercial accounting to trading and production activities of the government, meets to a considerable degree the criteria for good budgeting established in Hicks' study. Some fifteen years ago, when Colm and others began to discuss economic criteria for budget presentation, Scandinavia already offered interesting practical experience. It may therefore be worthwhile to review briefly the treatment of the public sector in Scandinavian budgetary practice today.

Scandinavia. Since the reform of 1937 the Swedish budget has had a structure which is more suitable for easy reclassification than that of most other European budgets.[4] While the Swedish budget has applied commercial accounting only to trading, production, and financing activities, the Danish system distinguishes itself by the application of commercial accounting to all government operations. One of the characteristics of this approach is the imputation of interest on government-owned capital assets which is discussed in the Colm paper. In the Danish system, all transactions of a capital nature are recorded in a capital account. The current account is debited not only with the depreciation of government-owned assets, but with imputed interest as well. For example, the

Income," *Studies in Income and Wealth, Volume One*, National Bureau of Economic Research, 1937, pp. 175-227.

[2] *Budgetary Structure and Classification of Government Accounts*, United Nations, Department of Economic Affairs, 1951.

[3] J. R. Hicks, *The Problem of Budgetary Reform*, Oxford, Clarendon Press, 1948.

[4] "The Budget System of Sweden," *Budgetary Structure and Classification of Government Accounts*, pp. 68-80.

expenditure estimates for the University of Copenhagen include—apart from wages and salaries—scholarships and cost of laboratory equipment, the printing of manuscripts, etc., and an item entitled Building expenses. This item includes not only the cost of repair and maintenance, taxes and duties, fuel, lighting, and inventories, but also interest payments and depreciation. This system was analyzed by Gunnar Myrdal[5] when he formulated his proposals for the reform of the Swedish budget in 1937. While Myrdal found the Danish experience in many respects very useful, he did not recommend the application of commercial accounting to all phases of government activity.

In the Swedish accounts as they stand now, capital outlays are defined much more narrowly than in Denmark. Expenditures for roads and bridges, as well as most of the expenditures for national defense, are treated as current outlays.

In both Sweden and Denmark, commercial accounting is applied to government-owned office buildings. In Sweden, however, the administration of government buildings is organized in the form of an enterprise. Current expenditure, including provision for depreciation, is covered by rentals charged to the government department occupying the buildings. The rentals charged are supposed to result in the realization of a profit to be transferred to the Treasury. This profit should represent a rate of return roughly equivalent to the prevailing market rate of interest. The same accounting methods are applied to government production and trading activities such as railways, post and telegraph, and hydroelectric plants, which are organized as separate undertakings. In Denmark, however, so far as the administration of government buildings is concerned, the form of separate undertakings is not used. However, in the budget accounts there are specific provisions for imputations of interest on the capital value represented by these buildings as well as for depreciation allowances.

For a number of years, the Swedish and Norwegian budgets included in their official budget documents a summary reclassification of the data according to the principles of social accounting. It is however, not easy to identify the individual budgetary items in the summary statements. The Konjunktur Institutet, therefore, in collaboration with the Ministry of Finance, has issued a comprehensive report reconciling the expenditure and receipt items shown

[5] Gunnar Myrdal, *Finans Politikens Ekonomiska Verkningar*, Stockholm, Statens Offentliga Utredningar, 1934, pp. 146-158.

in the summary statement with the corresponding items in the official budget document and identifying each item. The first comprehensive report of the Konjunktur Institutet covers the period from 1946 to 1950.[6]

Italy. Some of the problems raised in Colm's and Miss Young's papers are similar to those which arose in very recent budget classification work undertaken in a number of countries, especially in Italy, Austria, and Honduras.

The Banca d'Italia, in its report covering the year 1952, for the first time published a statement on central government transactions classified according to their economic character. This reclassification stays within the scope of transactions covered by the traditional budget system and refers to the same accounting period as the budget. A rough functional classification on a ministerial basis is given within the category Expenditures on goods and services for current consumption. Taxes are grouped according to economic character, but since the most important ones are properly identified, adjustments—if desired—can easily be arranged. While the statement distinguishes between a current and a capital account, it also gives an over-all picture of the combined transactions both on current and capital account. Moreover, there is a statement on treasury cash outgoings and incomings. The classification used in the Banca d'Italia report is based on model accounts published in *Budgetary Structure and Classification of Government Accounts.*[7] Mario Ercolani, who was responsible for this work, made a further contribution by analyzing the local government sector as well as the transactions of the central government sector. A very detailed discussion of the technical problems arising in this work can be found in a recent study published by the Research Department of the Banca d'Italia.[8]

Austria. The 1954 budget of Austria contains not only a reclassification of expenditures and receipts according to the principles of social accounting, but it shows under each of the categories the individual items as they appear in the official budget classification. A numbering system is used to identify the items in such a

[6] *Nationalbokföring 1946-1950*, Stockholm, Konjunktur Institutet, 1951, pp. 50-89.

[7] P. 2.

[8] Mario Ercolani, "Limiti attuali e linee di sviluppo delle rilevazioni sulle pubbliche finanze," *Contributi all' Analisi di alcuni fenomeni trattati nella relazione annuale*, Rome, 1954, pp. 23-100.

way as to achieve a complete reconciliation between the conventional classification and the reclassified accounts.

In the Austrian budget all transactions, regardless of their nature, are entered gross, including even those of the state railway system; the post, telephone, and telegraph system; and the monopolies and other financially integrated government undertakings. In the reclassified accounts the current transactions of these undertakings appear on a net basis.

The task of reclassification of the budget transactions was greatly facilitated by the fact that all incomings and outgoings relating to the budget are recorded within the same system of accounts on a cash basis. Except for the distortion resulting from the recording of trading and production transactions on a cash basis instead of an accrual basis, the task of the reclassifier is somewhat easier when he has at his disposal a comprehensive statement in which all incomings and outgoings are recorded regardless of their nature.

Netherlands, *Finland*, *Portugal*. For the last three years the Minister of Finance of the Netherlands has submitted, together with the conventional budget, a Memorandum on the Condition of Netherlands State's Finances. In this Memorandum the budget figures are categorized according to national accounting principles, with subclassifications by function. In the *Economic Survey of the Ministry of Finance of Finland* a somewhat similar classification is presented. Reclassification of the conventional budget has been undertaken by the Budget Committee of the Finnish Parliament, and these reforms will result in a system similar to the Scandinavian models.

The Portugese Central Statistical Office has published in *Estatisticas Financeiras*, 1952, comprehensive statements of the public sector, which represent for a period of twenty years a complete reclassification of central and local government data according to social accounting principles.

Honduras. Within the last two years Honduras finished a major job representing a complete reclassification of the conventional budget in accordance with the classification shown in *Budgetary Structure and Classification of Government Accounts*.[9] Honduran budgets like many of the Latin-American budget documents, suffered from defects of overspecification, e.g. all the posts, including even the names of the civil servants holding them, were shown separately, as well as other most minute details of expenditure.

[9] P. 2.

The present budget continues to report expenditures on the basis of the organizational structure of the government. Expenditures for each government agency are, however, now subdivided as follows: Current expenditures on goods and services—subclassified by wages and salaries—and Purchases of material and other services, Interest, Transfers to private accounts, Deficits of government undertakings, Transfers to local administrations, Gross investment by the general government, Gross investment by government undertakings, and (1) Capital grants to public undertakings outside the "consolidation" and (2) Other transfers to capital accounts. On the receipt side, direct taxes are shown separately from indirect taxes, and each of the individual taxes coming under these two headings is listed. The other headings refer to Income from property, Monopoly profits, Profits from undertakings, and Depreciation allowances set aside in the working budgets of public undertakings. In addition to this reclassification, several summary statements are included, of which one makes no distinction between capital and current accounts (cuenta unica) and another shows a current account separately from a capital account (which excludes public debt transactions). Another summary shows the effect of the combined current and capital transactions of the government on its cash holdings and on the public debt. Additional tables provide for classifications by function. The functional classification, however, covers current and capital expenditures on goods and services as well as transfers. While the Honduran experience may not be generally applicable with regard to scope of budget reforms, it indicates how much can really be done in a relatively short period if there is sufficient determination to carry out the necessary reclassification work.

Ceylon, Burma, and India. In Asia the reclassification of budget accounts is being considered in a number of countries. Pioneering work in this respect has been done by the Research Services of the Central Bank of Ceylon, which, in its report for 1953, published a reclassification of the central government budget in accordance with social accounting principles. Within the broad economic character categories used there—such as Purchases of goods and services, Transfer payments, and Acquisition, Construction, and maintenance of real assets—outlays are subclassified according to their purpose. Again, it is interesting to note that this reclassification has remained within the framework of the conventional budget, thus becoming an additional source of information available not only to the economic analyst but to the legislator as well.

Reclassification work with somewhat less emphasis on economic character and the main stress on function is being carried out in Burma. The Burmese budget includes now an annex covering both the estimates and the expenditures of the preceding eight years, grouped according to their main purposes, such as social welfare and development, economic development, defense, etc. Further work, with more emphasis on ascertaining the economic character of the transactions, is in progress. Similar work has been initiated in India, where the reclassification of the budget in accordance with social accounting principles is being undertaken in the Ministry of Finance.

At the present time our colleague, Stein Rossen, is making a survey in the Far East for the purpose of preparing a budgetary classification workshop for the countries of the region.[10]

SELECTED ISSUES

Treatment of Government-Owned Enterprises. The problem of classifying public enterprises has been given special attention by both national income and budget analysts. The preference expressed by Colm in his present paper is to include public enterprises in a broad enterprise sector, which would then be subdivided into private and public enterprises. The UN system of national accounts[11] also distinguishes along these lines.

In the practical work of budget reclassification, the greatest difficulty does not always lie in the segregation of general government activities from trading and production activities, but in the proper delineation between public and private enterprises. The case is relatively clear when we deal with financially integrated undertakings, such as post and telegraph services and state-owned railways, where the political process determines the investment outlay. There are, however, autonomous and other noncentrally controlled government undertakings, where it is unclear to what extent the market determines capital outlays.

For the purpose of formulation of fiscal policies, it is essential

[10] A budgetary classification workshop was organized for the Central American countries in Mexico City in 1953, and a report was published in 1954 on the discussions (see *Budget Management*, United Nations, Technical Assistance Administration, Series C, No. 14, 1954).

[11] *A System of National Accounts and Supporting Tables*, United Nations, Statistical Office, Studies in Methods Series F, No. 2, 1953, p. 11.

to be able to combine the available subsector accounts into a comprehensive statement on government activities, including not only the so-called "general government activities," but also the government's activities through its enterprises. This is particularly important where part or all of the major industries are government-owned. To the extent that investment outlays of enterprises owned by the government are determined by the political process, the need for such a comprehensive statement is obvious. Where the government does not exercise an active influence in determining the investment outlays of the more autonomous undertakings, it would be desirable to bring that fact out clearly, since the investment decisions of autonomous undertakings may be in conflict with the fiscal policy of the government. For that purpose we would favor the subclassification of gross capital formation, as indicated in the standard system, not only between public and private enterprises, but also between public corporations (autonomous undertakings) and government enterprises (financially integrated undertakings).[12]

Debt and Credit Transactions. National income accounts do not yield all the information necessary for economic analysis, although the typical national income measurements, such as government disposable income, consumption expenditure, government savings, and gross capital formation, are very important. The inclusion of debt and credit transactions in a comprehensive statement furnishes information not only on the changes in the composition of financial assets and liabilities of the government, but also on the net change in cash and in public debt; the latter is one of the measurements most frequently used by the Ministry of Finance in assessing the impact of fiscal policies.

The system adopted in *A Manual for the Classification of Government Accounts*[13] provides for two accounts, one of which is entitled Debt and credit transactions, while the other includes the remaining transactions. "Debt and credit transactions" show all outgoings corresponding to an increase in financial assets or to a decrease in liabilities, and all incomings corresponding to a decrease in financial assets and an increase in liabilities. The other account shows all transactions which bring about a decrease or increase in cash or claims of the government against all other

[12] *Ibid.*

[13] *A Manual for the Classification of Government Accounts*, United Nations, Fiscal Division, Internal Working Paper, 1954.

sectors. It includes all expenditures of a current and capital nature on newly produced goods and services, as well as all transfers and the purchase and sale of existing physical assets.

Interest Payments. The measurement of the benefits derived from the use of capital assets raises the question of whether interest paid on debts contracted for financing the acquisition of such assets should be treated as transfer payments or as factor payments. This question is relevant for the purposes of a complete social accounting system, but raises no immediate problems if the analysis is limited to the public sector.

Colm's proposal to include interest payments on state and local debt in national income would result in a splitting of interest payments by the government into two parts, one of which would enter the national income while the other would be treated as transfer payments. Even if Colm's recommendation were accepted, the solution would still be far from ideal. Local outlays on such capital assets as roads, buildings, canals, hospitals, etc., are often only partly financed by local borrowing. Another portion may be financed by central government grants. The continued treatment of interest payments on central government debt as transfers would thus be inconsistent with the treatment of interest on local debts and give a distorted picture of the relative share in the national product between the central and local governments.

Colm's alternative suggestion to include an imputed interest on all government-owned assets, whether state or local, in the estimate of the national product would seem in theory more satisfactory, even if the determination of capital values for such assets must by necessity be on a rather precarious basis. However, it would not be necessary to include such an estimate of imputed interest within the framework of budget accounts, as they could be taken care of in the form of statistical adjustments. In this connection, it may be useful to refer again to the Danish system of central government accounts, where commercial accounting principles have been generally applied and where current transactions are debited not only with depreciation of government-owned assets, which are defined there in very broad terms, but also with imputation of interest (see pages 194-195).

Comprehensiveness. In spite of the variation in the composition of the components which make up the totals shown in the reclassified statements, a common feature of these statements is their close link to the traditional budget.

The primary objective of budget reclassification is not the obtaining of data on the transactions of the general government sector for the purpose of fitting them into a system of social accounts; it is the presentation of these data in such a way as to make major transactions appear in the light of their economic significance. Moreover, all reclassifications discussed in this paper aim at a comprehensive picture of all general government transactions and at least of those trading and productive activities which are integrated in the conventional budget accounts, including also the debt and credit transactions carried out by the agencies operating within these sectors.

The measurements used in the finance ministries must always aim at a comprehensive view within which components are presented for a variety of purposes. As Richard Ruggles has described this problem: "It is not a question of which is the better measurement, but rather which measure is applicable to the specific problem being studied."[14]

This is the reason why in our type of work, which is determined by the exigencies of fiscal policy requirements, we cannot go all the way in conforming to completely consistent models of presentation.

GEORGE JASZI, Department of Commerce

Government—Producer or Consumer? As Gerhard Colm points out, government can be regarded either as a consumer or as a producer in national income theory. In the former case, goods and services purchased by government constitute output; in the latter, they constitute input used to produce output.

The first view suggests the classification of all government purchases as final. The second, via an analogy to business output, tends to invite a classification of government output into intermediate and final, and the exclusion of the former from national output. This, to my mind, has constituted the major significance of the choice between the two interpretations of the role of government in the development of national income thought.

Since Colm has now come to advocate the inclusion of all government output in national output (page 120), the choice between the consumer and producer interpretations of government is a much less crucial matter from the standpoint of his paper. In fact, I can

[14] Richard Ruggles, *Introduction to National Income and Income Analysis*, McGraw-Hill, 1949, p. 73.

see only one point—in connection with constant dollar measurement—at which it becomes relevant to his argument (see my later comments on this subject).

I should, nevertheless, like to raise a question related to the matter, in the hope that its discussion may shed some light on the complex, confused, controversial, and important issues involved.

It is usually regarded as axiomatic that households should be treated as consumers and that the goods and services which they buy consequently represent output. But in analogy to Colm's interpretation of government one might say equally well at least from a purely formal point of view, that households are producers who buy input to produce output. Just as the wages of government employees and the supplies (such as ink and stationery) which are purchased can be regarded as input rather than output, with output consisting of the services provided (e.g. economic intelligence), so the wages of domestics and the flour, sugar, etc., bought by households can be regarded as input, with the output consisting perhaps of finished pies and cakes.

If this vantage point is taken, the issues usually discussed in connection with the treatment of government are seen to be quite general ones applicable equally to the treatment of private consumption. For each particular version of the formulation of the "government problem," it is possible to formulate a precisely analogous "consumer problem."[1] The most sweeping departure from the conventional measurement of government is that of Kuznets, which contemplates broad exclusions of government services from the national product total on the ground that they are not properly regarded as part of final output. Kuznets' proposal finds its counterpart in similar suggestions for broad exclusions from private consumption of elements conventionally regarded as part of it.[2]

More limited formulations, which shy away from these broad implications and which would make adjustments in government purchases to eliminate certain more narrowly defined "duplications,"[3] would have to recognize exactly similar ones to be dealt with in private consumption as now defined.

[1] See my "National Income: Status and Prospects," *Journal of the American Statistical Association*, September 1951.

[2] E.g. Simon Kuznets, "National Income: A New Version," *Review of Economics and Statistics*, August 1948 (see also an earlier statement in *Studies in Income and Wealth, Volume One*, National Bureau of Economic Research, 1937, p. 37).

[3] E.g. G. Haberler and E. Hagen, "Taxes, Government Expenditures, and

Those who regard the government problem essentially as one of substituting a proper functional classification of government services for the object classification of purchases frequently in use can turn to the conventional classifications of private consumption and find that very similar classification problems confront them there.

Finally, those (like myself) who, in addition, believe that the real difficulties connected with the government which affect comparisons of output totals arise not in the measurement of current dollar totals but in their conversion to constant-dollar magnitudes, find that they are confronted with similar difficulties when deflating private consumption. Briefly, the problem posed is not to deflate separately items that in some sense do not provide independent satisfactions, but to group them for deflation purposes with the items with which they interact to produce satisfaction. Again, for each temptation to combine some item of government purchase with another item (either government or private) for deflation purposes instead of deflating it separately, there can be found a similar temptation to combine for deflation purposes items of private consumption that, according to conventional procedures, are deflated separately.[4]

I believe that the government controversy could be clarified considerably if everyone who deals with it would at the same time address himself to the consumer analogy. The government problem should be discussed in isolation only if a consumer analogy can be shown not to hold. To the extent that it holds, either symmetrical treatment should be provided or sufficient reasons given why from a practical standpoint it is possible and advisable to shut one's eyes to an analogy which in theory always exists.

To my mind, the present attitude toward the consumer analogy is not systematic. For instance, after Kuznets has stated clearly that his proposals for the treatment of government imply wide departures also from the conventional treatment of private consumer expenditures,[5] he proposes, in a paper written only a little later and addressed exclusively to the government problem, that the

National Income," *Studies in Income and Wealth, Volume Eight*, NBER, 1946.

[4] See my article cited in footnote 1. For a similar point, see Richard Stone, "The Construction of Price and Quantity Index Numbers in National Accounting," processed, Cambridge, Eng., June 1952, pp. 32 ff.

[5] "National Income: A New Version," as cited.

contents of consumer expenditures as conventionally defined should be used as a yardstick for judging what government expenditures are to be regarded as final.[6]

The Services of Government Capital. A substantial case can be made for imputing a return for the services of fixed capital used by government, but there are important counter-considerations.

One of the major aims of imputations is to provide comparability with similar forms of activity that take monetary form. The imputation for the services rendered by owner-occupied houses, for instance, provides comparability with rental housing reflected in monetary returns. It succeeds in doing so in a genuine sense because of the institutional fact that rental housing is widespread, and that it is possible, via an analogy to it, to impute a realistic rental return on owner-occupied housing of comparable type. Although there are many difficulties involved even in this imputation, the question "What would this house fetch if its owner chose to rent it instead of living in it?" makes sense and a reasonable answer can be provided. As a result of the imputation, comparability between the nonmarket and market spheres is genuinely improved.

Imputation for certain types of property used by government could follow similar procedures, and useful results in the way of improved comparability would be produced. For instance, it might be possible to impute a gross rental to government office buildings by analogy to private office rentals, and to estimate a net rental return by deducting expenses, including depreciation, actually incurred by government.

But for some of the most important types of government property—e.g. schemes of regional development, such as the TVA—this procedure is not open. The question what gross annual returns these properties would have in the market cannot be associated sufficiently with actual market events to be realistically answered. For some others, such as the road system, the market analogies that exist (toll roads) are so restricted that in any answer the tail would necessarily be wagging the dog.

[6] Simon Kuznets, "Government Product and National Income," *Income and Wealth*, Cambridge, Eng., Bowes and Bowes, Series I, 1951: "A third criterion must, therefore, be introduced. It requires . . . that the services by government to individuals have an analogue in the private markets. Only those government activities directed to satisfy individuals' wants are included which find their parallel, and on a substantial scale, in similar services purchased by individuals on private markets."

Colm recognizes this implicitly by proposing that imputation should be done by applying some fixed rate of return to estimated capital values. If this is the procedure, however, very little will have been done to improve comparability with the services of fixed capital used in the business sector. In the business sector the services of fixed capital are reflected by property incomes including a variable profit type of return, which would not be genuinely comparable with the fixed rate of return imputed in the government sector.

If, in addition, we take into account the difficulties of establishing proper capital values and interest rates applicable to them (including statistical difficulties as well as those involved in setting acceptable conventions, which would abound in calculations of this type) much of the attractiveness of the proposition is, in my opinion, lost. I doubt whether the inclusion of an imputed rate of return on these types of government property would advance matters further than (or indeed as far as) a purely verbal explanation that the series does not include a measure of the services rendered by government capital.

Omission of a rate of return on fixed capital used by the government is paralleled in the private sphere by the omission of such a rate on consumer capital. It is useful to keep in mind the affinity between the two omissions in discussing either of them. For instance, a synoptic view of the matter suggests the question whether we are to impute a rate of return on all government fixed assets (including, e.g. the Washington Monument) or only those that are regarded "productive" in some sense. If Colm is in favor of the latter, more restrictive, imputation, an additional hurdle would have to be overcome in drawing a distinction between productive and unproductive government capital.

Indirect Business Taxes and Factor Cost. I should like to restate what I consider to be the essence of the treatment of indirect business taxes in national income.[7]

Underlying the definition of national income in the United States accounts is a conception of it as a tool for answering questions relating to the allocation of factor services among various uses—for instance, among industries. We realize that for various reasons (mainly imperfection of competition and lack of equilibrium) re-

[7] Colm's discussion on pages 119-121 does not seem to me to be convincing since, as he himself notes, it is based upon an arbitary choice of price indexes.

corded income transactions are but imperfectly adapted to serve as building blocks for such a measure. But national income data are the only accessible comprehensive data that will lend themselves to this use and they will be so used when the need arises, in spite of their imperfections.[8]

Accordingly, the treatment of indirect business taxes in the definition of United States national income (and other aggregates designed from a similar point of view) is prompted by the desire to make this concept as good a tool as possible for the analysis of resource distribution. Broadly speaking, it is preferable to exclude indirect business taxes from the measurement of incomes if these are to approximate the distribution of productive resources, because neither do these taxes represent in themselves productive resources nor does the counting of some other incomes gross of these taxes improve them as measures of resource use. This is so because these taxes tend to leave relative incomes unchanged.

There are, of course, exceptions to this proposition. For instance, the classification of the general property tax as an indirect business tax does not quite fit into this scheme. But by and large the proposition holds.

To my mind, the homely and often quoted example of the tobacco manufacturing industry tells the essence of the case. In this industry national income as now defined amounts to about $½ billion, about equally divided between labor and property income. Excise taxes upon this industry amount to about $1½ billion. It seems obvious that if we are interested in the allocation of productive resources, we are dealing here with a $½ billion rather than a $2 billion industry, and also that the relative contribution of labor and property to the output of this industry is better approximated if we think of the relative magnitudes of employee compensation and property incomes as presently measured than if we add to either one the amount of the excise tax.

Transfer Payments in the Nation's Budget. As to the treatment of transfer payments in the nation's budget, I have found relatively

[8] A case in point is Abram Bergson's *Soviet National Income and Product in 1937* (Columbia University Press, 1953), in which the concept of national income at factor cost is at first severely castigated because of the well-known imperfections it has as a measure of resource use, and then employed as a tool for gauging the distribution of resources in the Soviet economy. (See my review of this excellent book in the *American Economic Review* for March 1954, in which I point out the present schizophrenic attitude toward the national income concept.)

satisfactory the device of deducting them from government receipts, and the concomitant concept of "net government receipts," with which Colm is dissatisfied. I find a certain rationale in the treatment—beyond mere convenience—in the fact that in some sense taxes, too, constitute transfers[9] and that so viewed net government receipts combines items that are homogeneous.

Colm is much concerned with the presentation of transfer payments in the nation's budget and advocates their inclusion in government expenditures rather than their netting against receipts, because he aims at a simple statement that exhibits clearly the relative importance of government in total demand. I believe that this is a will-o'-the-wisp, given the complexities of the actual world. Throughout the postwar period, for instance, the government has exerted a powerful influence on private demand through its policies affecting residential housing activity—its setting of interest rates, its loan and insurance guarantees, its regulation of down payments and of the length of maturities. Yet there is no accounting device to make this influence appear in the government sector in the nation's budget. It must necessarily be reflected in private construction activity. In interpreting the data we must take into account these and other complexities of the situation, rather than look for a single ratio that will tell the whole story at a glance.[10]

It is this conviction that leads me to the view that the treatment of transfer payments in the nation's budget is exclusively a matter of clear tabular presentation. As such, it is of considerable importance but certainly not coordinate with some of the other issues which we encounter in the treatment of government.

Alternative Budget Statements. I join with Colm in deploring the confusion caused by the existence of three different budget statements (the administrative budget, the cash budget, and the national accounts budget) and I agree with him that there should be a clear reconciliation of the three.

What disturbs me, however, is that Colm does not ask for more than a clear reconciliation. The implication is that we are confronted with three essentially different purposes and that we cannot hope for one integrated statement that will serve all three. In my opinion, many of the differences between the budget statements now

[9] In some systems of national accounting they are explicitly so classified.

[10] The now defunct series on the "net contribution" of the federal government, which attained some prominence in the late thirties, constituted such an attempt.

extant are due to the irrationalities of gradual historical evolution, and it would be entirely possible to work out a single statement that would serve governmental as well as national accounting needs. Such a statement should also incorporate Colm's suggestions relating to the accounting for government capital formation and for all receipts and expenditures on a cash as well as an accrual basis, with whose substance I heartily agree. Such a statement would be somewhat more cumbersome than those now in use (in essence, a set of sector savings and investment accounts or sources and uses of funds statements would have to be introduced into the national income and product accounts), but it would be much more satisfying from the standpoint of accounting theory and economic analysis and policy.

I do not minimize the powerful institutional factors that will make progress along these lines difficult. Nevertheless, I believe that integration should be our final goal in this field rather than mitigation of the present confusion through the preparation of reconciliation statements. Such statements, including the excellent one by Miss Young, should be regarded only as indispensable first steps.

Constant Dollar Measures. For the purpose of measuring the volume of production, Colm seems to be satisfied with a deflation of the various components of government purchases by specific price indexes applicable to them; the only difficulty which he discusses is the correction of government wages for changes in productivity. In my opinion, the problem of deflation must be stated rather differently if, as in Colm's view, the government is regarded not as a consumer but a producer of services. If this view is taken, a deflation such as he envisages would be concerned with inputs and therefore would be irrelevant. What would be called for would be a classification of the current dollar figures according to the type of service provided and (in the absence of price indexes relevant to these services) the extrapolation of their base-period values by indicators thought to be representative of the movement in the real volume of the service provided.

Colm also hints at an alternative procedure in which all entries in the accounting system would be deflated by a uniform price index to maintain the arithmetical relations among them. This seems to me to carry deflation beyond the point of usefulness. Uniform deflation of all elements of the accounts, presumably by an index of general purchasing power, would, as far as cross-section views of the economy are concerned, not add to the information provided by the current dollar estimates, since relative proportions would not be changed. As regards the time comparisons of components, I would consider deflation by specific indexes superior in all instances to that by a general price index.

I believe that (1) at the present time we can make useful approximations of constant dollar product flows. Also, in principle, all magnitudes can be deflated that can be expressed as differences between product flows, such as value added by industry, which is the difference between industry sales—plus inventory change—and purchases from other industries. (2) We are not at present capable of calculating general measures of constant dollar factor input. But we can make useful progress along these lines if we advance gradually, guided and restrained by clear-cut analytical purposes. (3) There is considerable scope also for the *ad hoc* deflation of other components of the national accounts that cannot be regarded as standing either for output or for the input of factor services. For instance, the deflation of disposable income by the cost of living is found useful for many practical purposes although from a theoretical standpoint it is a highly arbitrary procedure. I fail to see, however, that we can usefully extend deflation beyond these three steps.[11]

JOHN W. KENDRICK, National Bureau of Economic Research

I fail to see a basic theoretical cleavage between Colm and Jaszi in their suggested methods for deflating the government sector of national product on the assumption that government is a producer of services. Jaszi proposes an extrapolation of base-period values of

[11] I should like to cover in footnote form a point of secondary importance. In a criticism of Department of Commerce methodology (see footnote 8 to his paper), Colm suggests that certain fees (such as tuitions at a state college or entrance fees at a national park) be classified as consumer purchases instead of as nontax payments to government as in the present procedure. He objects to the present procedure because it "leads to a situation in which some part of educational and recreational expenditures are included in consumer expenditures, another not, depending on whether the education or recreational facilities are public or private." I cannot see that the reclassification proposed by Colm would remedy this situation, because only a small part of the public services in these fields are financed by fees. I realize that problems are raised by the presentation of data relating to services that are similar but financed partly from private and partly from public sources, but I do not see that Colm's diagnosis or his suggested procedure contributes to their solution.

the various types of service produced, by indicators of real volume. Colm proposes deflation of purchases of the various types of commodity and service inputs by appropriate price indexes, but with an adjustment of real factor inputs for productivity changes. Colm's method implies a government real output series of the type Jaszi would measure explicitly, but it is approximated indirectly through the productivity adjustment on the assumption that the net output of government has risen relative to factor input in the same degree as has net output to factor input in the private economy. The indirect method is presumably favored by Colm because of the lack of direct estimates of government output.

The two methods are theoretically parallel only if the productivity adjustment is designed to approximate changes in *net* factor productivity in government; they are statistically comparable only if factor productivity in the private and in the government spheres have moved in step with one another.

The first point may be illustrated by a simple numerical example:

	PERIODS	
	I (*base*)	*II*
Government inputs:		
Factors (constant dollars or index numbers)	100	200
Purchased intermediate products (constant dollars or index numbers)	100	220
Total (constant dollars)	200	420
Total (index numbers)	100	210
Government output (hypothetical):		
Gross (constant dollars)	200	480
Gross (index numbers)	100	240
Net (constant dollars or index numbers)	100	260
Output-input ratios (index numbers):		
Gross output/total input	100	114.2
Gross output/factor input	100	120
Net output/factor input	100	130

According to Colm's method, as I interpret it, the real factor input of period II would be raised by an index presumed to approximate the change between periods I and II in net factor productivity. When this result ($200 \times 130 = 260$) is added to the government purchases from business, deflated as he suggests, and as is done by the Commerce Department, the correct output figure of 480 is achieved.

The same result may be attained by adjusting total input by the ratio of gross output to total inputs. The adjustment by net factor productivity seems preferable, however, since this is the series which, in conjunction with other industry productivity estimates, yields productivity in the economy as a whole. It would be incorrect to adjust input by the ratio of gross output to factor input, except where intermediate product input maintains a constant relationship to gross output.

Actually, Colm speaks in terms of a "labor productivity" adjustment. If his suggestion were realized that services of government capital be included in national product, the adjustment would be applicable to both inputs. In my view, the adjustment should be made jointly, since over time it is not feasible to allocate changes in productive efficiency between the factors. Total net factor productivity would differ from "labor" productivity insofar as factor substitution had occurred.

Although Colm's procedure squares with the Jaszi suggestion theoretically, the crux of the matter from a statistical viewpoint is whether it may be assumed that the productivity of government factors varies with that of private factors. Or, in other words, if one could really construct a measure of gross and hence net government output, would it be likely to rise at the same rate relative to corresponding inputs as the ratio of private output to input?

This brings up all the difficult questions as to what really is government output. If Kuznets' view is accepted that a large proportion of government purchases are devoted to providing services to business—either through services to particular industries or to private business at large by maintenance of the social framework—then it is defensible to impute the productivity of the particular industries, and the private sector at large, to the appropriate government inputs. Colm, while now advocating the inclusion of all government purchases in final product, recognizes on theoretical grounds that: "Some government services are designed to promote the productivity of private enterprise." It is somewhat anomalous, however, to adjust government inputs by a productivity factor calculated *as if* government inputs were related to private output, while still classifying all the inputs in government and all the outputs as final government services.

But for the portion of government service that may be considered as final on any view, or for all government services on the view that government is an ultimate "consumer," the assumption seems dubious that productivity increases over time are the same as in the private economy as a whole. The parallel is surely closer between government final services and the private service industries than the private economy as a whole. We do not know a great deal about productivity in the private service industries, but the evidence we have indicates that it has risen significantly less than in the economy as a whole.

Thus the adjustment Colm suggests may bias the real government and national products upward as much as they presently are biased downward. In any case, it would seem wise to work more on measuring output and productivity in government along the lines suggested by Jaszi, and on the private service industries if parallels with the private economy are sought. Then we can reconsider the adjustments needed to improve real product comparisons over time.

Reply by Gerhard Colm

Some questions raised in the discussion, particularly those by George Jaszi, give me a welcome opportunity to clarify a few of the views expressed in my paper.

Government—Producer or Consumer? Jaszi believes that if the government is regarded as a producer of services, then "at least from a purely formal point of view" consumers also should be regarded as "producers who buy input to produce output." The work of the cook and the purchase of flour and sugar could be interpreted as input to produce—a cake. Why stop here? The consumption of the cake could also be understood as input of energy for the production of labor exactly as the input of electrical energy may be used for the production of manufactured goods in a factory. That is right "from a purely formal point of view." However, a formal point of view alone will not enable us to construct a usable set of accounts. Our system must be logical; but not all logical systems are usable. How we divide between final consumption and input for the production of an economic output depends on the manner in which we come to grips with the economic system. A "correct" accounting system, I think, is one which is most helpful as a tool in the solution of the problems with which we are confronted. We are particularly concerned with the economic effects of the decisions made, or to be made, by the various decision makers in our economic system. Then a distinction according to the decision-making processes, that is, economic institutions, becomes paramount. In this respect the private household is basically different from the enterprises, and government agencies are different from both. No purely formal argument can persuade me to accept the conclusion that government purchases can be regarded as an input for the performance of government services only if family purchases are also regarded as input for the production of labor. I do not say that Jaszi's suggestion is "wrong." I only say that it does not lead to a fruitful conclusion.

The only thing which could weaken my position concerning the interpretation of family purchases as "final" consumption is not a formal argument but the observation that recently some households, at least on weekends, have been transformed into "do-it-yourself" factories. If this movement spreads further, it may force us to recognize that the urban household (like the farm household) plays a double role as a unit both for living and for work.

Several discussants commented on my recommendation that all government services be regarded as final product (which is a change from the position I had taken previously). Fabricant suggests that we actually should attempt to classify government expenditures according to final and intermediate products. I attempted such classifications during the thirties, when there was a question, for example, about the proper classification of education. Education aids the individual and also helps to provide enterprises with a more productive labor force. With respect to enterprises, the value of education is reflected in the value of private output.

At that time the amounts in question were relatively small, so that a more or less arbitrary classification did not make too much difference for the total. Today, however, government expenditures have become of overwhelming importance mainly because of the increase in national security expenditures. Therefore, it now makes a great difference how government expenditures are classified. As they serve as a means of securing both our way of life and our way of work, a classification in one or the other category becomes arbitrary. Because of the magnitude of this ambiguous element, an attempt to distinguish between end products and intermediate products becomes practically meaningless. I prefer to recognize this clearly as one of the unsolvable questions and to treat statistically all government purchases as measurements of the final product provided by the government.

The Services of Government Capital. Jaszi recognizes that a case can be made for allowing an imputation for the services of government-owned capital, such as roads, buildings, dams, etc.

Fabricant is even more determined in this respect than I. Jaszi advances arguments that can be made on the other side, some of which are certainly justified. But, again, I am not convinced by the argument that if a use value is attributed to government assets, consumer assets (in addition to owner-occupied houses) should be treated in the same way. Again I cannot accept the formal view that what is right for a dam or harbor installation must also be right for a refrigerator or a television set. One could also say that it is justifiable to impute a rent for owner-occupied houses only if one also imputes a rent for private cars. In this respect the boundary line should depend on the purposes for which economic accounts are used. In order to be useful, the accounts should certainly be internally consistent, but formal consistency alone does not give us a useful tool.

Indirect Business Taxes and Factor Costs. Jaszi defends the conventional computation of national income (by deducting from gross national product business taxes in addition to depreciation) on the grounds that this measurement is useful for analyzing the allocation of factor services among industries.

I can see that for certain problems, e.g. productivity comparisons, it may be justified to compare the "private value added" of various industries in relation to the number of employed in those industries, etc. This is particularly true if some of these industries have heavy excise taxes, like the tobacco or liquor industries. Jaszi emphasizes such specific applications in his defense of the national income concept (net of business taxes).

My criticism is directed to the use of this concept as a measurement of general economic activity. In this respect I maintain that net national product is a superior concept, even though on *practical statistical* grounds I am not unduly troubled by the double counting implied in the GNP concept.

Jaszi apparently thinks of business taxes as something imposed on production and products without affecting the private incomes derived from production (". . . these taxes tend to leave relative incomes unchanged"). I believe that on grounds of tax incidence we have no right to assume that deducting business taxes from market values gives us the same magnitudes or relationships which would exist if there were no business taxes.

Tax impositions affect prices and incomes, but the attempt to measure the "true" value of resources used by deducting taxes from the value of the sale is like an attempt to unscramble a scrambled egg. We have no other measurement of the value of production than (1) measuring what the buyers pay for the product, or (2) measuring what private and public incomes are derived from the sale of the product.

With respect to other issues discussed, particularly the tabular presentation of transfer payments and the constant dollar measures, I have not much to add to my original paper. I am very much pleased by one criticism Jaszi made. He is disturbed by the fact that I ask only for reconciliation of the different measurements of government transactions. He believes that it is desirable and feasible to work out a single integrated statement which could serve the various purposes now served by the administrative budget, the consolidated cash budget, and the national account budget. That Jaszi, who knows more than anybody else about the theoretical and technical details of national economic accounting, believes such integration feasible is most encouraging indeed. I am glad that I can close on this positive note, because I believe that in debating minor issues of accounting technique the differences of opinion often appear greater than the wide areas of agreement.