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Chapter 4

When Moneyflows are Primary Distributive Shares

At the stage of the distribution of money compensation for economic activity, national income is the sum of income receipts of individuals and undistributed net profits of enterprises. Simon Kuznets, *National Income: A Summary of Findings* (National Bureau of Economic Research, 1946), p. 1.

In Chapter 2 we noted four types of household receipts that are distributive shares: gross cash pay (which includes nearly all of what in national income parlance is called wages and salaries); cash dividends; cash interest (which differs materially from the current Department of Commerce distributive share item, net interest; it differs also from the interest component of national income as prevailingly conceived during the fifteen years before the adoption of the net interest concept); and net owner takeouts (roughly comparable to entrepreneurial cash withdrawals plus net money rental income of persons).

Table 2 included three very condensed national accounts for the types of transaction giving rise to these four types of household receipts. In this chapter we shall expand these four national type-of-transaction accounts so that the transactions of each of the eleven sectors are separately identified. The other national type-of-transaction accounts are considered in succeeding chapters.

1 *More About the Two Economic Perspectives*

In theory the relation between the main money circuit and the gross national product account[1] is quite a simple one, although the possibility of time lags between debits and credits in both has given rise to a good deal of argument, and argument that has not helped to clarify this relation.

The GNP account is a kind of two sector circuit, but it has not been customary to call it a circuit because one sector is thought of as final or ultimate, the other as merely intermediate (productive enterprises). Only the intersector flows are counted in this circuit; (a) flows from the ultimate sector to the intermediate on account of final product purchases, and (b) flows of distributive shares and related flows from the intermediate to the ultimate sector. (a) is a use and (b) a source of funds for the ultimate sector; (b) is an application and (a) a source of funds for the

[1] *Survey of Current Business*, July 1947 Supplement, Table I.

intermediate sector. The (a) total and the (b) total are synchronous and equal for any fiscal period. However, there may be a time lag of some debit subtotal behind some credit subtotal, or vice versa.

A somewhat similar situation prevails in the money circuit, but here we have more sectors and no one of them is thought of as ultimate or final. Also we have more flows. Still total inflows (sources of money) and total outflows (dispositions of money) for each sector are synchronous and equal, and here too there may be a time lag of some sector debit subtotal behind some credit subtotal for the sector, or vice versa.

By way of flagging the contrast between the GNP account view of the economy and the money circuit view we have called them different perspectives. But they differ more than this visual metaphor suggests. To press the metaphor further, we may say that it is as if the accrual-and-imputation view of our economy (the GNP account) were seen through colored glasses, the moneyflows view by naked eye. The GNP account screens out a great many transactions that involve moneyflows. The total of moneyflows in Table 2 is much larger than national income or gross national product.

As we have noted the GNP account aims to provide what accountants call a consolidated statement for each of the two sectors of the economy, the transactions between one ultimate transactor and another and between one intermediate transactor and another are screened out (or canceled) in the process of accounting consolidation much as parts of the spectrum are screened out by colored glass. Thus J. R. Hicks and A. G. Hart "suppose that the whole of the productive system of our community is organized in a single giant firm, which controls all the capital equipment, and employs all the labor". "The part played by the giant firm", they tell us, "is exactly the same as that played in reality by all the firms which compose industry and commerce, when they are taken all together. . . . All transactions between firms cancel out, when all firms are taken together, as they have to be for calculation of the social income or output."[2] This cancellation process excludes from the gross national product account all financial flows, nearly all transfer flows, and the very large volume of interenterprise transactions that arise out of commodity flows. But the moneyflows accounts are in general on a combined basis. Substantially the whole spectrum of moneyflows transactions from red to violet is revealed.[3]

[2] *The Social Framework of the American Economy* (Oxford University Press, 1945), pp. 143, 150, and 152.

[3] We say substantially because to a minor extent transactions have been netted as

The quotation from Hicks and Hart deals with national (or social) income; but it applies as well to gross national product. Accounting consolidation helps to lend an ethical coloring to national income and product accounts. Because the GNP account singles out the transactions at the beginnings and the ends of the channels of trade, it gives us a measure of national accomplishment, i.e., of production, and of what labor and property have received for their participation in the productive process. Thus it tells us something about *how well* our economy works. Moneyflows accounts serve to portray the impacts of various types of transactor on one another — they help us to understand *how* our economy works. For this purpose we need to see how the economy looks when financial transactions and transfer payments are not canceled out.

The contrast we are drawing is between the two sector circuit of the accrual and imputation perspective and the multisector money circuit. Currently the Department of Commerce shows the two sector circuit from the viewpoint of productive enterprises, final product sales are sources of funds and distributive shares and related items (chiefly capital consumption allowances and indirect business taxes) are uses. But from the viewpoint of the ultimate sector the final purchases are the uses of the funds provided by the distributive shares and related items.

Currently too the Department of Commerce accompanies the GNP account with sector accounts for 'persons', government, business, and the rest of the world. These sector accounts constitute a move — within the accrual and imputation perspective — toward paralleling information that is essential in the moneyflows perspective. And of course these accrual sector accounts tell us a great deal about *how* our economy works. But the GNP account itself reports only transactions connected with the current production of goods and services and only a part of these.

For purposes of relating the two perspectives we can think in terms of four kinds of transactions, final product transactions (final purchases and the primary distribution); nonfinal product transactions, financial moneyflows, and transfer payments. We have emphasized that the moneyflows account for each of these is a balancing account.

But we need also to deal with narrower and more homogeneous classes of transaction, gross cash pay, cash interest, net owner takeouts, etc. The

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noted below in the discussions of the several type-of-transaction accounts. Technical transactions of course are not revealed, only the main money circuit. Technical transactions may be thought of as infrareds and ultraviolets. And the gross national product items may be thought of as the reds and violets at the two ends of the visible spectrum.

national moneyflows account for each of these types of transaction too is a balancing account.

2 *Gross Cash Pay and Net Owner Takeouts*

Because gross cash pay goes entirely to households and because households as recipients of this distributive share lie entirely within the ultimate sector, the national gross cash pay account (Table 4) raises only one important question, as far as its relation to the gross national product account is concerned. The total is less than total wages and salaries by approximately the amount of pay in kind.[4] In 1942 this imputed income included in wages and salaries was $2.4 billion, made up of: value of food furnished government employees (including the military) and commercial employees, $1.0 billion; value of standard clothing issued to military personnel, $.8 billion; value of employees' lodging, $.1 billion; value of food furnished domestic servants, nurses and farm employees, $.5 billion.

The P&B references in the source column of Table 4 and of various tables that follow are to the ten sector financial statements given in Chapter 7 and the statement for the banking sector in Chapter 13. The roman numeral in each of these entries identifies the sector.

There is some danger in attempting to interpret the national gross cash pay account in isolation from other national accounts. Nevertheless, a brief interpretative comment may be ventured. State and local government payrolls show little if any cyclical variation. Also, the 1938 countercyclical increase in Federal payrolls (including relief-work pay) is only a half billion, while for all transactors taken together the decrease from 1937 amounted to over $3 billion. The sharp increase in Federal payrolls after 1940 reflects chiefly the growth of the military pay and allowances component in this account.

The relation of the national net owner takeouts account (Table 5) to the gross national product account is much like that of gross cash pay. Net owner takeouts go entirely to households and households as recipients of this distributive share lie entirely within the ultimate sector. However, in this case we have had to split the familiar but composite distributive shares, net income of unincorporated business and rental income of persons, to separate out the components that go to households. And we have combined in a single account the takeouts of lessors and the takeouts of farmers, merchants, stockbrokers and realtors. This is because we treat

[4] There is another very minor difference which is indicated in the technical note at the end of this chapter.

lessorship as a kind of business; such transactors are part of Group X (Table 5, line U).

As a first approximation we suggested that net owner takeouts correspond to entrepreneurial cash withdrawals plus net money rental income of persons. To be precise we should say that net owner takeouts are ordinarily smaller than the net income of unincorporated enterprises plus rental income of persons, partly because the latter total includes an imputed item (income in kind), and partly because it includes an item that partakes of an accrual nature, the net money income of noncorporate business proprietors and lessors minus their net cash withdrawals or takeouts. But we ought to be more specific.

First as to the imputed item: in connection with Table 3, line C, column 4, we noted the exclusion from moneyflows of imputed rent and entrepreneurial withdrawals in kind amounting to $3.5 billion in 1942 (chiefly the value of farm produced food consumed at home and the imputed net rental income on owner occupied dwellings). Net owner takeouts are less inclusive than entrepreneurial net income plus rental income of persons because of this exclusion.

Second as to the accrual item: net owner takeouts are ordinarily smaller than the nonimputed net income of unincorporated businesses, professions and lessorships. The difference is partly retained earnings, but only partly these. Because the data for estimating takeouts are not very satisfactory, we reckon them on a net basis, i.e., gross cash withdrawals minus new money invested.[5] Hence the excess of nonimputed net income over net takeouts equals business savings plus money newly invested.

3 *Interest and Dividends*

Except for the rest of the world and the banking sector the moneyflows accounts report both intersector transactions and transactions between transactors in the same sector. The GNP account is on a consolidated basis; only intersector transactions are shown.[6] This contrast is illustrated by the national cash dividends and cash interest accounts (Tables 6 and 7). Industrial corporations may pay interest and dividends to other industrial corporations; these moneyflows appear in the two tables. In fact eight sectors are dividend recipients and every sector but farms receives interest.

[5] This language describes what we have tried to estimate, not the method employed.

[6] For this perspective a wage payment by a household to a household is to be thought of as two transactions — a final product purchase from an imputed productive enterprise and a wage payment by this enterprise.

TABLE 4 THE NATIONAL GROSS

(Millions of

		1936	1937	1938
	RECEIPTS			
A	Households	41,000	45,200	42,100
B	All Transactors	41,000	45,200	42,100
	EXPENDITURES			
C	Households	760	880	760
D	Farms	680	820	800
E	Industrial Corporations	22,900	26,200	23,200
F	Business Proprietors and Partnerships et al	6,900	7,600	7,100
G	The Federal Government	4,040	3,540	4,020
J	State and Local Governments	3,560	3,820	4,060
K	Banks and U. S. Monetary Funds	540	560	560
L	Life Insurance Companies	420	420	440
M	Other Insurance Carriers	180	220	200
N	Security and Realty Firms et al	1,060	1,140	1,040
P	All Transactors	41,000	45,200	42,100

TABLE 5 THE NATIONAL NET

(Millions of

		1936	1937	1938
	RECEIPTS			
Q	Households	8,000	10,200	8,900
R	All Transactors	8,000	10,200	8,900
	EXPENDITURES			
S	Farms	3,080	3,620	2,900
T	Business Proprietors and Partnerships et al	4,300	5,760	5,260
U	Security and Realty Firms et al	600	800	700
V	All Transactors	8,000	10,200	8,900

Note: Due to rounding columns may not precisely downtotal.

CASH PAY ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
45,100	48,900	60,400	79,100	P below	A
45,100	48,900	60,400	79,100	A above	B
860	940	960	1,100	P&B-I-Q	C
780	800	960	1,280	P&B-II-H	D
25,200	28,100	36,000	47,100	P&B-III-M	E
7,800	8,400	10,500	12,700	P&B-IV-M	F
3,940	4,040	5,040	9,800	P&B-V-K	G
4,160	4,300	4,400	4,460	P&B-VI-N	J
580	600	620	680	P&B-VII-J	K
420	460	480	480	P&B-VIII-K	L
240	240	260	280	P&B-IX-J	M
1,060	1,100	1,180	1,180	P&B-X-M	N
45,100	48,900	60,400	79,100	C thru N	P

OWNER TAKEOUTS ACCOUNT

Dollars)

1939	1940	1941	1942		
9,300	9,900	12,900	15,100	P&B-I-D	Q
9,300	9,900	12,900	15,100	Q above	R
2,420	3,340	4,160	5,780	P&B-II-Q	S
6,160	5,840	7,720	7,820	P&B-IV-W	T
700	700	1,000	1,500	P&B-X-W	U
9,300	9,900	12,900	15,100	S + T + U	V

TABLE 6 THE NATIONAL CASH

(Millions of

		1936	1937	1938
	RECEIPTS			
A	Households	4,600	4,700	3,300
B	Industrial Corporations	1,080	1,120	940
C	Business Proprietors and Partnerships et al	60	60	60
D	Banks and U. S. Monetary Funds	20	20	20
E	Life Insurance Companies	20	20	20
F	Other Insurance Carriers	80	80	60
G	Security and Realty Firms et al	1,400	1,600	1,100
H	The Rest of the World	220	240	160
J	All Transactors	7,500	7,900	5,600
	EXPENDITURES			
K	Industrial Corporations	5,300	5,500	3,600
L	Banks and U. S. Monetary Funds	240	240	220
M	Life Insurance Companies	10	20	10
N	Other Insurance Carriers	130	100	150
P	Security and Realty Firms et al	1,600	1,800	1,300
Q	The Rest of the World	220	260	360
R	All Transactors	7,500	7,900	5,600

TABLE 7 THE NATIONAL CASH

(Millions of

		1936	1937	1938
	RECEIPTS			
S	Households	2,800	2,700	2,800
T	Industrial Corporations	420	380	360
U	Business Proprietors and Partnerships et al	50	60	60
V	The Federal Government	500	430	410
W	State and Local Governments	140	140	140
X	Banks and U. S. Monetary Funds	1,700	1,740	1,720
Y	Life Insurance Companies	880	920	940
Z	Other Insurance Carriers	200	220	240
a	Security and Realty Firms et al	1,000	1,000	900
b	The Rest of the World	30	30	30
c	All Transactors	7,600	7,600	7,500
	EXPENDITURES			
d	Households	1,360	1,380	1,320
e	Farms	520	500	520
f	Industrial Corporations	1,800	1,800	1,800
g	Business Proprietors and Partnerships et al	360	360	360
h	The Federal Government	940	1,020	1,020
i	State and Local Governments	600	600	580
j	Banks and U. S. Monetary Funds	480	460	460
k	Security and Realty Firms et al	1,300	1,300	1,300
m	The Rest of the World	220	200	160
n	All Transactors	7,600	7,600	7,500

Note: Due to rounding columns may not precisely downtotal.

DIVIDENDS ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
3,800	4,000	4,500	4,300	R minus B thru H	A
960	800	920	840	P&B-III-A	B
60	60	60	60	P&B-IV-A	C
20	20	20	20	P&B-VII-A	D
20	20	20	20	P&B-VIII-A	E
80	80	80	80	P&B-IX-A	F
1,100	1,300	1,400	1,000	P&B-X-A	G
180	180	160	140	P&B-XI-A	H
6,200	6,500	7,100	6,500	A thru H	J
4,300	4,400	5,000	4,600	P&B-III-N	K
240	240	260	240	P&B-VII-K	L
20	20	20	10	P&B-VIII-L	M
130	130	140	130	P&B-IX-K	N
1,300	1,400	1,500	1,400	P&B-X-N	P
320	300	260	220	P&B-XI-M	Q
6,200	6,500	7,100	6,500	K thru Q	R

INTEREST ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
2,700	2,700	2,700	2,500	n minus T thru b	S
340	320	340	400	P&B-III-B	T
60	60	60	70	P&B-IV-B	U
410	400	410	440	P&B-V-A	V
140	120	120	120	P&B-VI-A	W
1,700	1,740	1,820	1,860	P&B-VII-B	X
980	1,020	1,040	1,120	P&B-VIII-B	Y
220	240	260	240	P&B-IX-B	Z
900	900	900	900	P&B-X-B	a
30	20	10	10	P&B-XI-B	b
7,400	7,500	7,700	7,600	S thru b	c
1,320	1,400	1,540	1,300	P&B-I-R	d
540	540	540	500	P&B-II-J	e
1,800	1,700	1,700	1,700	P&B-III-P	f
320	360	460	440	P&B-IV-N	g
1,040	1,140	1,200	1,440	P&B-V-L	h
560	500	420	460	P&B-VI-P	i
440	420	420	380	P&B-VII-L	j
1,300	1,300	1,300	1,100	P&B-X-P	k
160	180	160	180	P&B-XI-N	m
7,400	7,500	7,700	7,600	d thru m	n

However, the only dividend receipts that count as final in the GNP account are receipts by households, private nonprofit institutions, and unincorporated businesses. All other receipts are presumed to be receipts by one transactor within the intermediate sector from another. Hence the relation of Table 6 to the GNP account is a relatively simple one. There is no imputed item to deduct from the GNP figure; lines A plus C are substantially the distributive share item, dividends.[7]

With Table 7 the situation is somewhat more complicated. The distributive share, net interest, of the GNP account does have an imputed component. On the other hand, the substantial item, government interest, is regarded by the Department of Commerce not as a distributive share but as a transfer payment that takes place within the ultimate sector. If we were to attempt to reconcile lines S plus U of Table 7 with the GNP item, net interest, we would have to take account of these two large differences. Also since interest receipts by various kinds of unincorporated businesses are counted as ultimate receipts, and since lines U and A include an appreciable volume of such interest, we would have to add this in to make the reconciliation complete.

In the comments so far on the relations of our four national moneyflows accounts to the GNP account there has been a tacit assumption we should now make explicit. Takeouts are on a cash basis, but the GNP items, wages and salaries, dividends, and net interest are income items, i.e., technically they are on an accrual, rather than a cash basis. However, during the seven years the differences in timing for wages and salaries and dividends as between these two bases are so small that we can neglect them. In general the same is true of interest, but here we must add a technical qualification. While we consider Table 7 to be on a cash basis we have included interest accruing to the credit of depositors on bank deposits in cash interest. The reason for treating this type of accrual as a cash receipt is that, unlike most accruals, it adds to a transactor's cash balance, for we shall include bank deposits in cash balances.

All four national moneyflows accounts considered in this chapter appear to be in perfect balance. This is because, in each case, household receipts have been estimated as the balancing item.

Now the receipts and expenditures for any one transactor group entered in Tables 4 through 7 and in the other type of transaction accounts may in general be said to come from the financial statement of moneyflows for that transactor group. Consequently, if the several type

[7] Minor differences between this and the Department of Commerce figure are listed in the Technical Note at the end of this chapter.

of transaction accounts are to balance, the financial statements for the various transactor groups must conform to certain uniform accounting standards. But we shall see that they do not conform completely. We shall be concerned with three main types of deviation from accounting uniformity. None of these is a serious problem in the case of the accounts considered in this chapter. It seems best to defer discussion of them until we come to points where they present special difficulties; two will be noted in the next chapter.

4 *Concerning Offset Settlements*

When we exclude income in kind from the moneyflows accounts, the imputed value of farm products consumed on the producing farm, the imputed rental value of owner occupied dwellings, etc., we intend no disparagement of their significance in the types of economic analysis in which they are appropriate. We exclude them in the conviction that this will make our accounts more useful for purposes of understanding the way the system of moneyflows helps to organize economic activity. Income in kind is not a moneyflow.

On the other hand, as we indicated in Chapter 2, we propose to include in the money circuit transactions that are settled by offset. Indeed we propose to construe the word 'offset' broadly and include transactions in which a transactor, in lieu of receiving a cash receipt from a debtor, has an obligation he owes someone else settled for him by that debtor. This may fairly be considered a three cornered offset. As a matter of fact nearly all the offsets contemplated by our proposal are three cornered ones.[8]

The national gross cash pay account is a case in point. It reports gross cash pay, not takehome pay. It includes pay that an employee, in lieu of receiving cash from his employer, gets in the form of a tax debt settlement made by the employer. If such pay were not included in the main money circuit, Table 4 would report only takehome pay, and income tax withholdings and social security tax deductions would be treated as taxes paid by the employer to the government, not as part of payrolls. Payrolls would be seriously understated, and a substantial part of household taxes would be shown as paid by various other transactor groups, not by households; even the government would appear as paying to itself what civil service employees have deducted from their takehome pay and credited to their accounts in retirement funds, or else these transactions would not show at all.

[8] But they are not the only money substitute we take into account, meaning by money cash balances. See Chapter 5, Section 1.

Similar considerations apply in connection with various other national accounts. In particular, if the moneyflows accounts were to exclude three cornered offset settlements, it would be necessary to treat a considerable volume of life insurance premiums as commissions paid by policyholders to the insurance agents and to omit this volume from the premium receipts of and the commission payments by the insurance companies. Omission of three cornered offset settlements would mean a serious distortion of the financial statements of most of the transactor groups.

In deciding to count payroll withholdings as part of gross cash pay and premium withholdings by insurance agents as premium receipts of insurance companies, we are but carrying a precedent already firmly established a short step further. That precedent is to the effect that bookkeeping entries by banks that serve in lieu of settlements by currency are to be counted as moneyflows. These are three cornered offset settlements in which the bank is the debtor that acts as settlement agent. Although transactions so settled are now generally accepted as part of the money circuit, it is not many years since they were somewhat widely regarded as settlements by money substitutes, rather than as full fledged moneyflows. At present, however, such transactions are conceded to make up the major part of moneyflows. To include bookkeeping entries by other transactors as well as banks is a minor but quite logical extension of the precedent.

In support of our way of defining the money circuit we may cite two passages from John Stuart Mill. What he has to say is pertinent here; it is pertinent also to a point we shall take up in the next chapter:

> The forms of credit which create purchasing power are those in which no money passes at the time, and very often none passes at all, the transaction being included with a mass of other transactions in an account, and nothing paid but a balance. This takes place in a variety of ways, which we shall proceed to examine, beginning, as is our custom, with the simplest.
>
> First: Suppose . . . A buys from B on credit. B does the like with respect to A. At the end of the year, the sum of A's debts to B is set against the sum of B's debts to A, and it is ascertained to which side a balance is due. This balance . . . is all that is paid in money. . . .
>
> But secondly: The debts of A to B may be paid without the intervention of money, even though there be no reciprocal debts of B to A. A may satisfy B by making over to him a debt due to himself from a third person, C. *Principles of Political Economy,* Book III, Chapter XI, Section 3.

Note first for our subsequent consideration that Mill thinks of credit as a temporary substitute for money in the money circuit as well as a permanent one; for he says "in which no money passes at the time". Note second that he clearly specifies three cornered offsets.

Having enunciated the offset principle he proceeds to illustrate it with bills of exchange (Section 4) and bank and government noninterest bearing demand notes (Section 5). Last but not least he considers cheques as an illustration in Section 6:

A fourth mode of making credit answer the purposes of money, by which, when carried far enough, money may be very completely superseded, consists of making payments by cheques.

In showing gross cash pay rather than takehome pay in Table 4 and in counting first premiums among the premium receipts of life insurance companies we believe we are following Mill's conception of the 'forms of credit' that 'answer the purposes of money'.

In this chapter we have gone into several rather technical problems in social accounting. Two of them are pertinent to the question what to count as moneyflows: the proper handling of offset settlements and of interest accruals on time deposits. We see no way to define what we mean by the main money circuit but to explain how we have elected to deal with these problems and similarly technical problems in connection with other types of transaction. We will go into a number of them in the remaining chapters of Part II. Other problems in social accounting considered above have to do with the relation between the money circuit and the two sector circuit of the accrual and imputation perspective. Clearly one cannot understand the money circuit in isolation; it can only be understood in terms of its relation to the accrual and imputation perspective. In this chapter we have concentrated on one side of this relation, on the distributive shares side of the GNP account. From here on forward we propose to concentrate on the final purchase side of this account.

All this suggests that the remainder of Part II will be somewhat concerned with further technical problems in social accounting. It is. A good many readers may feel at this point that they do not want to go into all these technicalities. Accordingly we propose to those who feel this way that they skip — either for a first reading or permanently — Chapters 5, 6, 8, and 10. This leaves of Part II Chapter 7 which presents the sector moneyflows financial statements and Chapter 9 which relates them to the GNP perspective. However for any reader who wishes to skip portions of the text, either temporarily or permanently, we wish to call the attention to two points. The chapter abstracts that follow the table of contents were intended, among other things, to facilitate such skipping. And Exhibit C in Chapter 10 aims to do for types of transaction what the Cast of Transactors in Chapter 3 does for types of transactor.

Technical Note on the Money Circuit and the GNP Account

The relation between the main money circuit and the GNP account we have characterized as theoretically a simple one. The money circuit is portrayed by presenting a system of social accounts for the economy. The GNP account should properly be conceived as a system of two social accounts, one for the intermediate sector, the other (the same account with debits and credits reversed) for the ultimate sector. In both systems there are sector accounts and type of transaction accounts that balance. In both cases too the accounting statements are what the accountant calls 'sources and applications of funds' statements. In both cases we have circuits in the sense that the transactors in each sector get sources of funds from other transactors, and make applications of funds that are sources of funds to other transactors, so that total outflows for all transactors equal total inflows for all transactors. We can fairly say that what flows into any transactor flows out of that transactor again, and that what flows out of any transactor flows into some other transactor.

These two social accounting pictures of our economy represent different perspectives. The perspectives differ partly because of considerations of an ethical nature. But for purposes of this note we may confine ourselves to differences on a factual level. These differences are:

1) The economy is divided into sectors in two different ways. We have indicated that the ultimate sector is not a clean cut concept. For purposes of the national income account before we had much in the way of estimates the income and product transactions of Transactor Groups V through XI tended to be neglected as too small to worry about and the ultimate sector was commonly conceived as households plus the capital accounts of Groups II, III, and IV; these capital accounts received household savings and used them for purposes of tangible investments in additions to national wealth. We believe that the ultimate sector as currently conceived for purposes of the GNP account (the economy is bisected differently for purposes of the national income account) can only be precisely defined by a listing of the ultimate sources and uses of funds assigned to it. But it includes chiefly (subject to one qualification) households, all of governments except quasi-business enterprises like the Post Office, private nonprofit institutions, and business capital accounts. The one qualification is that the expenditures on compensation of employees by households, private nonprofit institutions, and the nonenterprise portions of governments are to be thought of as double transactions: (a) final product purchases from imputed enterprises that are parts of the intermediate sector producing this product and (b) compensation of employees (and some interest and depreciation) charged against these imputed enterprises. This qualification means that what appears as a single moneyflow in our accounts appears on both sides of the GNP account, on one side as final product purchases, on the other as a distributive share (or a depreciation charge).

2) Transactions appear in the GNP account that are not moneyflows — imputed and accrual items. Imputed items must be subtracted from the GNP perspective for purposes of reconciling the two. But a different pro-

cedure is possible with the accrual items. In Chapter 9 we propose a way of relating the two perspectives that detours most of the complications presented by accruals.

3.) Transactions of three types appear in the moneyflows accounts that, with one small exception, do not appear in the GNP account. This is because the moneyflows accounts in general show transactions between transactors in the same sector, while the GNP account is a consolidated statement for either sector. The three types of transaction are:

i) Product transactions between transactors in the intermediate sector. These include interenterprise interest and dividend payments; they include also sales of goods and services by one enterprise to another.

ii) Transfer payments (public assistance, government interest, personal taxes, etc.). Some of these pass from one transactor in the ultimate sector to another. Some take place wholly within the intermediate sector. Only a minute transfer flow between the two sectors appears in the GNP account. But the total volume of such moneyflows is substantial.

iii) Financial moneyflows (borrowing and lending, etc.) and purchases and sales of existing assets. In the GNP perspective these are treated exclusively as flows between transactors in the ultimate sector.

The quotation at the beginning of this chapter seems to suggest that national income, considered as the sum of the distributive shares, can, except for the retained income of productive enterprises, be said to consist of moneyflows. Several major subtotals of national income or variant income totals that exclude retained corporate income have been proposed by national income accountants — income payments to individuals, aggregate payments to individuals, and personal income. No doubt one motive for developing such a total was originally the desire to relate income flows and moneyflows. But all three include various nonmoneyflow items, among them wages in kind and the value of farm food consumed at home. Also the number of distributive share items clearly recognized as something other than moneyflows to households has been gradually increasing with the growing recognition of the differences between the two perspectives. The most recent of the three, personal income, drops the suggestion that the total is mostly moneyflows. But personal income comes closer conceptually to the receipts total for households, Table 2, column 2, line P, than either income payments to individuals or aggregate payments to individuals.

The national income item (nonimputed) rental income of persons, is computed as a net income accruing to unincorporated lessors from their property ownership (including the ownership of improvements), i.e., lessorship is in effect treated as a business in this computation. The resulting national income item is essentially profit for a particular transactor group. It is only remotely related to rent in a Ricardian sense. Nevertheless, it has been regarded as a distinctive type of distributive share and, presumably in deference to Ricardian tradition, called rent.

The logic of national income accounting suggests taking two steps away from this somewhat misleading form of lip service to Ricardian theory: (1) to draw a distinction between net income and net withdrawals of proprietorship in the case of lessors as well as of other businesses; (2) to regard

net withdrawals of proprietorship by unincorporated lessors as belonging to the same general class of items as net withdrawals from other unincorporated business proprietorships. These two steps are taken here. We treat net owner takeouts of lessors as a species belonging to the genus, net owner takeouts.

In general we shall relate the GNP account and the moneyflows accounts for our several sectors by identifying in the latter the totals, or net flows, which are approximately equivalent to various debit and credit components of gross national product. In each case we shall specify the main reconciliation items for the approximate equivalents. In this chapter we cover all distributive shares except retained business earnings. The equivalent for these, plus capital consumption allowances, is considered in Chapter 9. Indirect business taxes are discussed in Chapter 6. Final product expenditures for households and the rest of the world are given preliminary consideration in Chapter 5; final product expenditures for all sectors are systematically treated in Chapter 9.

The approximate conceptual relationships for payrolls, noncorporate business income, interest, and dividends are indicated below. The equations should not be taken to indicate methods of estimate, or to show all the items required for a full reconciliation. The relationships are complicated by differences in the accounts to which minor items are assigned here and in the GNP tables: Thus in the moneyflows accounts directors' fees are classified as wages and salaries, savings and loan association dividends as dividends, and dividends received by mutual financial institutions as dividend receipts.

Payrolls	
	GNP Wages and salaries
Less	Pay in kind
Plus	Directors' fees
Equals	Total gross cash pay in the moneyflows accounts
Noncorporate Business Income	
	GNP Income of farms and other noncorporate businesses plus Inventory valuation adjustment plus Rental income of persons
Less	Imputed rent
Less	Other withdrawals in kind by farmers and other entrepreneurs
Less	Retained income plus Inventory valuation adjustment
Less	New money invested by noncorporate proprietors
Equals	Total net owner takeouts in the moneyflows accounts
Interest	
	GNP Net interest
Less	Net imputed interest
Less	Dividends accruing to the owners of savings and loan associations
Plus	Net interest originating in government
Plus	Interest received by proprietorships and partnerships in 'security and commodity brokerage' and 'finance, n.e.c.' classifications and by mutual financial institutions
Is approximately equal to	Interest receipts in the moneyflows accounts for households, business proprietors and partnerships et al and noncorporate security and realty firms et al
Dividends	
	GNP Dividends
Less	Dividends received by mutual financial institutions
Plus	Dividends withdrawn by shareholders of savings and loan associations
Is approximately equal to	Dividends received in the moneyflows accounts for households, business proprietors and partnerships et al and noncorporate security and realty firms et al