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Chapter 9

Buying the Gross National Product

The income earned in producing output is necessarily equal to the value of the output produced. . . .

Any level of production is potentially self-financing at any level of prices: that is, it will generate the incomes out of which it could be purchased. Of course, individuals, in the aggregate, always want to spend less than their total income, i.e., to save. But businesses typically want to spend more than their total incomes (i.e., invest more than their retained earnings) in order to expand their operations, and we know that the government is quite capable of spending more than its tax income. Committee for Economic Development Research Study, *Jobs and Markets* (McGraw-Hill, 1946), p. 12.

In the main money circuit we have distinguished fourteen types of transaction. In discussing the fourteen national moneyflows accounts we have noted many of the points at which they overlap, and many of the points at which they diverge from, the national income and product accounts. We clearly need to tie the two accounting perspectives together, and in this chapter we propose to do so. As the key step in this process we shall identify in the moneyflows accounts (a) gross national product purchase transactions and (b) transfer expenditures. Once this step is taken, the rest of the task of relating the two perspectives becomes relatively easy.

What we propose to do is single out the gross national product account (excluding imputed items) in the money circuit. This means separating GNP moneyflows from (a) the nonproduct transactions and (b) the product transactions that represent double counting, the intermediate or nonfinal items. With very minor exceptions (to be noted shortly) loan-fund transactions are nonproduct transactions. They are already separated in our accounts. Transfer payments (we shall assign this term a broader meaning than that currently given it by the Department of Commerce — we shall use it broadly enough to cover all ordinary non-product transactions) are not difficult to pick out. Since the detail underlying the previous tables enables us to determine the recipient of each transfer expenditure, identification of transfer receipts follows from the identification of transfer expenditures.

It remains to segregate the nonfinal product transactions. Now all ordinary expenditures that do not represent GNP purchases or transfers can be taken to be nonfinal. Also we can identify total product receipts by eliminating the transfers from ordinary transactions. Further the national income accountant has commonly taken the nonfinal product receipts of a business enterprise to be equal to its nonfinal product expenditures. We propose to apply this rule across the board. Accordingly we shall compute for each sector its total product receipts minus its nonfinal product receipts, and construe this computation as showing the final primary distribution of value of output among the various sectors.

It then remains only to incorporate all these computations and the figures for financial transactions in our correlation of the accrual-imputation and moneyflows perspectives.

1 *The Correlation of the Two Perspectives*

When we summarize production transactions, transfer payments, and net financial transactions for any transactor group we have a balancing account (except for the statistical discrepancy). Such a summary is merely a recasting and condensation of the moneyflows account under the four following captions:

1) Expenditures on GNP (final product) purchases
2) Total product receipts minus nonfinal product expenditures
3) Net receipts from, or expenditures for transfer payments
4) Net money obtained through financing, or net money advanced or returned to others

The passages quoted from *Jobs and Markets* at the head of this chapter are couched in accrual terms, whereas our concern is with moneyflows. But these passages have their counterparts in the moneyflows perspective, and they set forth or, with their context, clearly imply three important propositions that have too seldom been placed in juxtaposition. Translating the quotation and its inescapable corollaries into moneyflows terms we have:

1) For all transactors taken together total expenditures on purchases of gross national product always equal total product receipts minus nonfinal product expenditures (apart from accounting and statistical discrepancies).
2) For any one transactor group, such as households, the Federal government, or industrial corporations, we may expect ordinarily to find a difference between expenditures on gross national product purchases and total product receipts minus nonfinal product expenditures.
3) For any one transactor group the difference between expenditures on GNP purchases and total product receipts minus nonfinal product expenditures varies from one fiscal period to another.

In general, we call the second item in our summary account total product receipts minus nonfinal product expenditures. In the case of households this item consists almost entirely of distributive share receipts and accordingly we shall substitute the caption, receipts of distributive shares, etc., for this sector.

We have already indicated in a general way the money outflows arising from final product purchases (in preceding chapters, and particularly in discussing Table 3). We may anticipate the results of identifying these expenditures for each of the sectors. We may anticipate also the classification of their ordinary expenditures as either nonfinal product expenditures or transfers, and of their ordinary receipts as either transfers or product receipts, and the computation of their total product receipts minus nonfinal product expenditures. Table 33 give a synopsis of moneyflows, a four-item summary account for each of ten sectors (life insurance companies and other insurance carriers have been combined into a single sector for the purposes of this table).

The table suggests that the quotation at the end of this chapter slightly oversimplifies things. At any rate, it should not be so translated into the moneyflows terminology as to imply that for industrial corporations, farms, and business proprietors and parternships et al, gross national product purchases 'typically' exceed total product receipts minus nonfinal product expenditures or that for households the converse is 'always' the case. For the moneyflows perspective we need to say 'much of the time' rather than 'typically' and 'always.'

On a moneyflows basis household distributive share receipts were clearly larger than their GNP expenditures in 1937, 1941, and 1942. In the two latter years most of the excess was absorbed by money advanced or returned to others. But transfer payments cannot be neglected; they were large in 1942, chiefly because of the higher personal income tax. In 1936 and 1940 household distributive share receipts, etc. (line E) and household GNP expenditures (line A) were about equal. The —1.6 on line C in 1936 reflects mainly the veterans' bonus. On a moneyflows basis GNP expenditures by households were apparently larger in 1938 and 1939 than their distributive share receipts, etc.

During the seven years under observation farms, industrial corporations, and business proprietors and partnerships et al apparently did not obtain much of the money they spent on purchases of gross national product through financial sources. Their chief source was the difference between total product receipts and nonfinal product expenditures. In the case of farms, transfer (benefit) payments were a source of some consequence. During 1942 all three industrial sectors advanced substantial amounts to help finance the war.

The Federal government stands out as the one sector that got the

TABLE 33 A
(Continued as Table 33 B)

SYNOPSIS OF GNP EXPENDITURES,

(Billions of

		1936	1937	1938
	HOUSEHOLDS			
A	GNP Expenditures	55.6	60.0	57.5
B	Net Money Advanced or Returned to Others .	2.3	.1	-.4
C	Net Transfer Payments	-1.6	1.5	.5
D	Dispositions of Money	56.3	62.4	57.6
E	Distributive Share Receipts, etc. 1/ . .	56.0	62.4	56.6
F	Sources of Money	56.3	62.4	57.6
G	Discrepancy Included Above (Disposition) 2/	-.3	.9	-1.0
	FARMS			
H	GNP Expenditures	1.9	1.5	.9
J	Net Money Advanced or Returned to Others .	.3	-.3	-.1
K	Dispositions of Money	2.2	1.2	.8
L	Product Receipts minus Expenditures n.e.c.1/	1.9	.9	.4
M	Net Transfer Receipts	.2	.3	.4
N	Sources of Money	2.2	1.2	.8
	INDUSTRIAL CORPORATIONS			
P	GNP Expenditures	5.3	6.3	2.5
Q	Net Money Advanced or Returned to Others .	.3	-1.1	.2
R	Net Transfer Payments	.8	.8	.8
S	Dispositions of Money	6.5	6.8	4.9
T	Product Receipts minus Expenditures n.e.c.1/	6.5	6.8	4.9
U	Sources of Money	6.5	6.8	4.9
V	Discrepancy Included Above (Disposition) 2/	.1	.8	1.4
	BUSINESS PROPRIETORS AND PARTNERSHIPS ET AL			
W	GNP Expenditures	2.9	2.9	2.1
X	Net Money Advanced or Returned to Others .	.7	3/	.8
Y	Dispositions of Money	3.6	3.6	3.3
Z	Product Receipts minus Expenditures n.e.c.1/	2.8	2.8	2.7
a	Net Transfer Receipts	.6	.7	.6
b	Sources of Money	3.6	3.6	3.3
c	Discrepancy Included Above (Disposition) 2/	-.1	.7	.4
	FEDERAL GOVERNMENT			
d	GNP Expenditures	4.9	4.4	5.1
e	Net Transfer Payments	2.8	-.4	.1
f	Dispositions of Money	7.9	4.3	5.3
g	Product Receipts minus Expenditures n.e.c.1/	2.8	4.0	4.0
h	Net Money Obtained thru Financing . . .	5.0	.3	1.3
i	Sources of Money	7.9	4.3	5.3
j	Discrepancy Included Above (Disposition) 2/	.1	.3	.1

1/ Receipts from all product and service transactions (including business taxes) minus non GNP, nontransfer expenditures.

2/ A negative entry is regarded as a source of money not accounted for.

LOANFUND FINANCING AND OTHER MONEYFLOWS

Dollars)

1939	1940	1941	1942	Source	
60.7	65.1	74.4	80.0	GNP 101 K	A
.3	-.1	5.0	19.6	Tbl. 32 L or A	B
-.1	3/	1.1	4.2	GNP 102 L	C
60.8	65.1	80.5	103.8	A + B + C + (G when G > zero) .	D
60.4	65.0	80.0	100.2	GNP 101 T	E
60.8	65.1	80.5	103.8	E + (-G when G < zero) . . .	F
-.4	-.1	-.6	-3.6	F&B I, Footnotes 1 and 2 . . .	G
.9	1.1	1.6	2.1	GNP 103 F	H
.6	-.2	.4	1.8	Tbl. 32 M or B	J
1.5	.9	2.0	3.9	H + J	K
.7	.2	1.5	3.3	GNP 103 S	L
.8	.7	.5	.6	GNP 103 X	M
1.5	.9	2.0	3.9	L + M	N
4.1	6.9	9.8	4.8	GNP 105 R	P
2.2	1.6	3.6	10.2	Tbl. 32 N or C	Q
.8	.9	1.0	1.4	GNP 106 S	R
7.1	9.3	14.4	16.3	P + Q + R + (V when V > zero) .	S
5.9	8.5	14.1	15.8	GNP 106 L	T
7.1	9.3	14.4	16.3	T + (-V when V < zero) . . .	U
-1.3	-.8	-.4	-.5	F&B III, Footnotes 1 and 2 . .	V
2.6	3.3	3.7	2.2	GNP 108 Q	W
-.3	.5	.3	4.3	Tbl. 32 P or D	X
2.3	3.8	3.9	7.6	W + X + (c when c > zero)	Y
1.5	2.7	2.9	6.7	GNP 109 L	Z
.6	.7	.6	.8	GNP 109 S	a
2.3	3.8	3.9	7.6	Z + a + (-c when c < zero) . .	b
-.2	-.5	-.4	1.1	F&B IV, Footnotes 1 and 2 . .	c
5.1	5.9	15.6	54.3	GNP 111 Q	d
1.1	1.0	3/	-2.8	GNP 112 R	e
6.3	6.9	16.1	51.5	d + e + (j when j > zero) . . .	f
3.9	4.3	6.0	10.1	GNP 111 e	g
2.2	2.4	10.1	41.2	Tbl. 32 E	h
6.3	6.9	16.1	51.5	g + h + (-j when j < zero) . .	i
-.1	-.2	.5	-.3	F&B V, Footnotes 1 and 2 . . .	j

3/Lies between ± \$50 million.

Note: Due to rounding, figures for various lines calculated by formulas given in the source column may differ slightly from the entries shown.

TABLE 33 B
(Continuation of Table 33 A)

SYNOPSIS OF GNP EXPENDITURES,

(Billions of

		1936	1937	1938
	STATE AND LOCAL GOVERNMENTS			
A	GNP Expenditures	6.8	7.2	7.6
B	Net Money Advanced or Returned to Others .	.3	.2	.3
C	Net Transfer Payments	3/	.3	.8
D	Dispositions of Money	7.1	7.7	8.6
E	Product Receipts minus Expenditures n.e.c.1/	6.9	7.7	8.6
F	Sources of Money	7.1	7.7	8.6
G	Discrepancy Included Above (Disposition) 2/	-.3	3/	-.2
	BANKS AND U. S. MONETARY FUNDS			
H	GNP Expenditures	.2	.5	.3
J	Net Money Advanced or Returned to Others minus Net New Gold from Domestic Sources and Mint Purchases of Silver	.2	.1	4/
K	Net Transfer Payments	.1	.1	.1
L	Dispositions of Money	.5	.6	.5
M	Product Receipts minus Expenditures n.e.c.1/	.5	.5	.5
N	Sources of Money	.5	.6	.5
P	Discrepancy Included Above (Disposition) 2/	3/	-.1	.1
	PRIVATE INSURANCE CARRIERS			
Q	GNP Expenditures	4/	4/	4/
R	Net Money Advanced or Returned to Others .	1.9	1.9	1.8
S	Dispositions of Money	1.9	2.0	2.0
T	Product Receipts minus Expenditures n.e.c.1/	.6	.7	.8
U	Net Transfer Receipts	1.2	1.3	1.2
V	Sources of Money	1.9	2.0	2.0
W	Discrepancy Included Above (Disposition) 2/	-.1	.2	.2
	SECURITY AND REALTY FIRMS ET AL			
X	GNP Expenditures	2.0	2.2	2.2
Y	Net Transfer Payments	.2	.2	.2
Z	Dispositions of Money	3.8	3.2	2.4
a	Product Receipts minus Expenditures n.e.c.1/	2.6	2.4	2.3
b	Net Money Obtained thru Financing . . .	1.2	.8	-.1
c	Sources of Money	3.8	3.2	2.4
d	Discrepancy Included Above (Disposition) 2/	1.6	.7	-.1
	THE REST OF THE WORLD			
e	GNP Expenditures	3/	.1	1.1
f	Dispositions of Money	3/	.1	1.1
g	Product Receipts minus Expenditures n.e.c.1/	3/	3/	3/
h	Net Transfer Receipts	.2	.2	.2
i	Net Money Obtained thru Financing . . .	-.2	3/	1.0
j	Sources of Money	3/	.1	1.1
	ALL TRANSACTORS			
k	Total GNP Expenditures	79.7	85.1	79.3
m	Product Receipts minus Expenditures n.e.c.1/	80.8	88.2	80.6
n	Discrepancy Included Above (Disposition) 2/	1.1	3.1	1.3

1/Receipts from all product and service transactions (including business taxes) minus non GNP, nontransfer expenditures.
2/A negative entry is regarded as a source of money not accounted for.

LOANFUND FINANCING AND OTHER MONEYFLOWS

Dollars)

1939	1940	1941	1942	Source	
8.0	8.2	8.1	7.9	GNP 114 I	A
-.4	.4	.8	1.2	Tbl. 32 Q or F	B
.6	.7	.6	.6	GNP 115 M	C
8.6	9.3	9.6	10.1	A + B + C + (G when G > zero) .	D
8.6	9.2	9.6	10.1	GNP 114 T	E
8.6	9.3	9.6	10.1	E + (-G when G < zero)	F
.4	-.1	.1	.4	P&B VI, Footnotes 1 and 2 . . .	G
.3	.4	.3	.2	GNP 117 G	H
.1	.4	.3	.1	GNP 118 G	J
.1	.1	.1	.1	GNP 118 E	K
.5	.9	.7	.5	H + J + K + (P when P > zero) .	L
.5	.5	.5	.5	GNP 117 T	M
.5	.9	.7	.5	M + (-P when P < zero)	N
3/	-.4	-.2	.2	P&B VII, Footnotes 1 and 2 . .	P
4/	4/	4/	4/	GNP 119 B	Q
1.9	2.3	2.6	3.0	Tbl. 32 S + T	R
1.9	2.3	2.7	3.0	Q + R + (W when W > zero) . . .	S
.8	.9	1.0	.9	GNP 119 P	T
1.1	1.3	1.8	2.0	GNP 119 W	U
1.9	2.3	2.7	3.0	T + U + (-W when W < zero) . .	V
3/	-.2	.1	-.1	P&B VIII and IX, Footnotes 1 and 2	W
2.6	2.7	3.2	2.5	GNP 121 D	X
.2	.2	.3	.3	GNP 121 Z	Y
3.3	3.1	3.6	2.8	X + Y + (d when d > zero) . . .	Z
2.9	2.9	3.2	2.9	GNP 121 U	a
.4	.2	.3	-.8	Tbl. 32 U or H	b
3.3	3.1	3.6	2.8	a + b + (-d when d < zero) . .	c
.5	.2	.1	-.7	P&B X, Footnotes 1 and 2 . . .	d
.9	1.7	1.3	.1	GNP 123 D	e
.9	1.7	1.3	.1	e	f
3/	3/	3/	3/	GNP 123 F	g
.2	.2	.2	.3	GNP 123 I	h
.7	1.5	1.1	-.2	Tbl. 32 V or J	i
.9	1.7	1.3	.1	g + h + i	j
85.3	95.4	118.0	154.0	Tbl. 33 A (A + H + P + W + d) + Tbl. 33 B (A + H + Q + X + e)	k
85.3	94.3	118.8	150.4	Tbl. 33 A (E + L + T + Z + g) + Tbl. 33 B (E + M + T + a + g)	m
3/	-1.2	.8	-3.6	m minus k = Tbl. 8 line Z minus GNP 117 E + F	n

3/Lies between $\pm$ $50 million.
4/Less than $50 million.
Note: Due to rounding, figures for various lines calculated by formulas given in the source column may differ slightly from the entries shown.

money for its GNP purchases chiefly from financial sources. The sectors represented in Table 33 B account for a relatively small percentage of total GNP expenditures. And though their financial moneyflows did not expand during the war as rapidly as those of other sectors, we shall find that their importance for moneyflows, at least in the case of the banking sector, is not adequately reflected in their own moneyflows accounts.

In our consideration of Table 3 we posed a problem. It is much easier to relate moneyflows to the final purchase side of the gross national product account than to the distributive share side, and the two procedures seem to give widely different results. We resolve this problem by adopting the easier procedure and neglecting the harder one. We attempt systematically to identify final purchases in the moneyflows accounts; what we do with the distributive shares side of the account is in the nature of a byproduct of this approach. We therefore come up with a somewhat novel looking form of national product account. The final purchase side of the account (line k of Table 33 B together with the addends listed in the source column) is detailed by purchasing transactor groups, and the components of the final purchases of each sector can readily be rearranged into familiar categories as they were in Table 3.[1] This gives us on the other side (line m and the listed addends) what we have called total product receipts minus nonfinal product expenditures, or more briefly, product receipts minus expenditures n.e.c. We have already given a broad characterization of this item for households in the more familiar categories of national income accounting, and we shall shortly attempt a similar characterization for other sectors.

For the time being we merely note that this form of the gross national product account has a great advantage. It details both sides of the account by sectors in such a way that we can relate transactors' receipts from and expenditures on production transactions to their other — financial and transfer — sources and dispositions of money. This enables us to see for each economic sector where the money to buy gross national product comes from and where the money not spent on final (or other) product purchases goes to.

2 *The Threefold Classification of Ordinary Expenditures*

Because our correlation of the two economic perspectives focuses on the final product side of the gross national product account, the main

[1] Because of the definition here adopted for final product purchases by the rest of the world, there is a slight difference between the expenditure classifications in columns 1 and 2 of Table 3, that seemed too small to mention in Chapter 2. It is discussed at the end of Section 2 below.

questions in deriving Table 33 from the statements of payments and balances for the various transactor groups pertain to the reclassification of ordinary expenditures. As indicated we need to identify three types of expenditures: those for final product purchases, for intermediate purchases, and for transfer payments.

Gross national product purchases by households give rise to the following moneyflows: all instalments to contractors, cash interest, gross cash pay and gross rents; customer expenditures minus receipts from customers; real property taxes but not other taxes; and a fraction of insurance premiums. As we have seen, household receipts from customers (for second hand goods) are deducted from what households spend as customers in order to exclude the small expenditure constituent that goes for existing assets and not for new production. While we do not include imputed rent in household final product expenditures (since it is not a moneyflow), we do include several expenditures by owner occupants that can be viewed as components of imputed rent — house repairs (some instalments to contractors, and some customer moneyflows such as those for repairing heating equipment installations), mortgage interest, insurance premiums on owner occupied houses, and property taxes. While real property taxes are thus regarded as product transactions, other household taxes are treated in the gross national product account as tranfer payments between households and quasi-households; they are, therefore, not part of household final product expenditures. Gross national product accrual accounting, as noted in Chapter 6, breaks life insurance premiums three ways. One portion (equal to benefits) is regarded as transfer expenditures and the benefits as the corresponding transfer receipts — these are thought of as moneyflows passing merely between households.[2] A second portion (equal to the premium additions to policy reserves) is regarded as a form of household savings in an accrual sense.[2] The remaining portion is treated as a final product expenditure, a payment for services rendered by insurance companies to households.[2] So far as the first and third portions of these premiums are concerned we can follow the same procedure in the moneyflow perspective. But the portion of the premium which accrual accounting adds to policy reserve can hardly be construed as a financial moneyflow. And it is clearly not a product expenditure. We believe this portion of the premium should be classified in the moneyflows accounts as a transfer payment. Hence we adopt a

[2] These statements are to be taken as indicating the conceptual basis for the three-way split, not as a precise indication of the method of estimate.

two-way split of the premiums, treating one portion as GNP expenditures and the rest as transfer payments.

While all product expenditures by households except the deduction a/c purchases of second hand goods are regarded as final product expenditures, only a small part of business product expenditures are so regarded. And in the business moneyflows accounts (Tables 22, 23, 24, etc.) the distinction between intermediate and final product expenditures is primarily on the basis of what accountants call character rather than by type of transaction. A character classification of expenditures aims to separate those that are chargeable against the income of the current fiscal period from those that are deferred to later periods (or have been accrued in earlier ones). For our present purpose we can follow the type of transaction classification only to identify total product expenditures; GNP expenditures are distinguished from other product expenditures in that they are chargeable to capital account.[3] Hence, for industrial corporations and the other purely business sectors, we must first classify ordinary expenditures as product expenditures or transfer items, next determine final product or gross capital formation expenditures from the national income and product accounts, and then deduct these from total product expenditures to get a residual estimate of money outflows on account of intermediate purchases. Gross capital formation equals expenditures for new plant and capital equipment plus expenditures for net increments in inventories; and when inventories decrease, the net decrement is deducted from plant and equipment outlays to obtain business final product expenditures.

These procedures for households and for business transactors set the pattern. Having identified those expenditures of each sector that are transfer items, we construe the corresponding receipts of other transactors as transfer receipts. All other ordinary receipts are product receipts. Once we have determined for any sector its GNP purchases, other product expenditures, total product receipts, and transfer receipts and expenditures the computation of the four items for Table 33 becomes a mere matter of arithmetic. But a number of account classification problems remain before we can get to this point for all the sectors.

For one thing national income and product accounting has come to regard the two government sectors as hybrids, partly quasi-households,

[3] We say chargeable, not charged. Over-all compilations of capital formation and capital consumption reveal a substantial volume of expenditures on additions to and betterments of fixed tangible assets that business records have charged to current expense. The Department of Commerce counts such items as properly capital outlays and includes them in business GNP expenditures.

partly quasi-enterprises. Consequently we must first divide their product expenditures into quasi-household and quasi-enterprise expenditures, and then treat them accordingly; all quasi-household product expenditures except purchases of existing assets are GNP purchases; only gross capital formation quasi-enterprise product expenditures are GNP purchases.

Further, the national account of net payments for real estate transfers poses a special problem for our threefold classification of ordinary expenditures. Receipts and expenditures arising from real estate transfers have, from the viewpoint of national income and product accounting, some of the attributes of transfer payments. But they also have, from this point of view, some of the attributes of business inventory changes. If the inventories of industrial corporations were to increase and those of business proprietors and partnerships et al were to decrease by the same amount, total purchases of gross national product would not be affected, but the distribution of purchases by sectors would be. If all real estate moneyflows were treated as plus and minus final product purchases, this would not affect the amount of the gross national product, but it would alter the distribution of purchases by sectors. We might have elected to extend the inventory precedent to real estate transfers in this fashion. However, we believe it would unnecessarily complicate the interpretation of final product purchases to classify real estate purchases as final, and that it is misleading to treat such purchases as transfer expenditures. Consequently we have decided to classify them as intermediate product purchases.

By the rules outlined so far we can carry out the three-way classification of ordinary expenditures for all except three sectors. In dealing with these three sectors, business proprietors and partnerships et al, the rest of the world, and the banking sector, special constructions of the rules are called for.

Product expenditures of business proprietors and partnerships et al, as much as those of government, must be analyzed to distinguish expenditures of business enterprises and expenditures of nonprofit institutions. The business rule is applied to the product expenditures of the business enterprises; only those which are capital expenditures are final product items. Institutional product expenditures require a modified rule because institutions are not treated in the national income and product accounts as if they were entirely quasi-households. Household final product expenditures include certain service charges paid to nonprofit institutions that are a component of the item, spent by households as customers. We deduct this component from the institutional expenditures component

Exhibit B

Classification of Ordinary Expenditures into Expenditures for Final Products, for Intermediate Products, and for Transfers

A FINAL PRODUCT EXPENDITURES

I Customer moneyflows and instalments to contractors

a) All household expenditures on these accounts except half the purchase cost (estimated existing asset value) of second hand goods

b) All Federal government and state and local government expenditures on these accounts except out of pocket current expenditures by government quasi-business enterprises, and except purchases of existing assets. (Current purchases of government enterprises, including subsidy program purchases, are treated as are purchases of merchandise by a wholesale or retail business. The increment in inventory, plus or minus, is counted as a capital formation expenditure; total purchases minus this capital expenditure equals out of pocket current outlay)

c) All expenditures by the rest of the world on these accounts minus receipts from the United States a/c imports of goods and services

d) The part of expenditures on these accounts by security and realty firms et al that represents purchases of household goods by landlords plus expenditures by this sector for new commercial and residential construction

e) The part of the expenditures on these accounts by all other transactors except private nonprofit institutions that represent expenditures for durable goods and new nonresidential construction plus expenditures reflecting net increments in physical inventories minus net decrements in physical inventories valued at average prices for the period

II Cash interest

a) Interest paid by households

b) Interest paid by the rest of the world to the United States minus interest received from the United States

III Cash dividends

Dividends paid by the rest of the world to the United States minus dividends received from the United States

IV Gross rents

a) Rents paid by tenant occupant nonfarm households

b) Rents paid by Federal and state and local governments except rents paid by government quasi-business enterprises

V Gross cash pay

a) Gross cash pay expenditures of households

b) Gross cash pay of Federal and state and local governments except current payroll expenses of government quasi-business enterprises

VI Insurance premiums

Gross insurance premiums paid by households on owner occupied houses plus the part of household payments of all other insurance premiums counted by the Department of Commerce as personal consumption expenditures

VII Taxes

Real property taxes paid by households

VIII The net increment in the monetary gold stock from domestic sources (which appears as the increment in Table 28, line d) plus Mint purchases of silver. These two items have been excluded from the computation of the financial disposition of money by the banking sector in Table 33 in order to be treated as final product purchases

IX Miscellaneous

Personal consumption expenditures of nonprofit organizations (in transactor group IV) as estimated by the Department of Commerce, minus institutional depreciation and minus the household expenditures for the services of these non-profit organizations that are included in I (a) above

B INTERMEDIATE PRODUCT EXPENDITURES

I All net payments for real estate transfers

II All net owner takeouts

III Cash interest paid by all sectors except interest payments by households, the part of interest payments by Federal and state and local governments included in C IV below, and the part of interest payments by the rest of the world included in A II above

IV Cash dividends paid by all sectors except the part of dividend payments by the rest of the world included in A III above

V Gross rents paid by all sectors except households and those parts of government regarded as quasi-households

VI Gross cash pay expenditures by all sectors except households and those parts of governments regarded as quasi-households

VII Tax refunds paid to business by the Federal government

VIII Taxes paid by all sectors except households

IX Expenditures as customers and instalments to contractors by all sectors other than those expenditures listed as final product expenditures above

C TRANSFER EXPENDITURES

I All public purpose payments

II All insurance benefits

III All insurance premium expenditures except those by households included in A VI above. Dividends paid to policyholders, which appear as an expenditure by insurance carriers in the national insurance premium account (Table 14, lines L and M), are also classed as transfers

IV Interest paid minus interest received by the Federal and state and local governments

V Taxes paid by households other than real property taxes

VI Tax refunds paid to households

of the item, personal consumption expenditures in the national income and product accounts; the remainder is included in line W of Table 33 A as institutional final product purchases.

The rest of the world is regarded somewhat as a quasi-household, but in a sense it is in a class by itself. Product receipts and expenditures are distinguished from transfers. But we do not take total product expenditures as representing final product purchases; rather we take the excess of all product expenditures except net payments a/c real estate transfers over all product receipts (Table 21, the sum of lines M through R minus the sum of lines A through E). We make this modification of the rule for households in order to arrive at a total which is approximately comparable to the Department of Commerce GNP total, except for imputed final purchases. However, we believe that for many purposes it is better to apply the household rule here without modification. When we do this we get a total that is grosser than the GNP by the amount of commodity and service imports (Table 21, lines A through E), viz.: the gross disposable product. A nation may be thought of as having this grosser total at its disposal (e.g., during a war) or as needing to plan the disposal of it (e.g., when unemployment threatens).[4]

One other sector requires a special construction of our general rules, banks and U. S. monetary funds. The increment in the monetary gold stock from domestic sources is a component of the Department of Commerce GNP total. We have added this increment plus Mint purchases of silver to the banking sector's ordinary expenditures on gross capital formation to give line H of Table 33 B. We treated these amounts in Chapters 7 and 8 as financial dispositions of money by the banking sector, but they have been excluded from what appears under this caption on line J of Table 33 B.

Exhibit B summarizes the method of classifying ordinary expenditures into final product transactions, intermediate product transactions, and transfers.

The GNP total which results from the application of the rules detailed in this exhibit is essentially the Department of Commerce figure minus imputed final purchases. However, there are three GNP components for which we show a different purchaser:

1) The Department counts cash grants in aid by our government to foreign governments as Federal GNP expenditures. Similarly it counts personal remittances to the rest of the world as personal consumption expenditure on imported goods and services. In Table 33 these public purpose payments are treated as transfer payments. Hence Federal government and household GNP expenditures are smaller and GNP expenditures by the rest of the world larger by the amounts of these transfer payments.

2) The increment in the monetary gold stock from domestic sources is a component of net disinvestment by the rest of the world (this is the Department of Commerce caption for GNP purchases by the rest of the world). In Table 33, as we have just noted, this item is included in GNP expenditures by the banking sector.

3) The Department regards Mint purchases of silver as a government GNP expenditure. In Table 33 they are treated as an expenditure by the banking sector.

During the period under consideration these three differences in sector of purchase are small.

3 *The Twofold Classification of Ordinary Receipts*

When for all transactors ordinary expenditures have been classified as final product transactions, intermediate product transactions, or transfers, the method of handling receipts follows as a simple corollary. Trans-

[4] See Chapter 14 and the note at the end of Chapter 13 for a further discussion of gross disposable product. Some use was made of this concept in combined production planning during World War II.

fer receipts are defined as the receipts that correspond to transfer expenditures. Total transfer receipts therefore equal total transfer expenditures, since we have no discrepancies in the national moneyflows accounts for any type of ordinary transaction except customer moneyflows. By identifying transfer receipts we identify product receipts also. Lines k and m in Table 33 B recapitulate final purchase expenditures and total product receipts minus nonfinal product expenditures for all transactors. As we should expect, these two totals differ by the amount of the discrepancy in the customer moneyflows account minus the net addition to the monetary gold stock from domestic sources and minus Mint purchases of domestic silver.

In the case of households almost all ordinary expenditures are classified either as final product purchases or transfers. The only exception is the small customer expenditure item (taken to be equal to receipts from sales of second hand goods) which we treat as an intermediate product expenditure. Also, almost all the excess of product transaction receipts over intermediate product expenditures represents, for households, receipts of distributive shares. The small exception is net receipts from real estate transfers. Hence we call line E in Table 33 A distributive share receipts, etc.

Line E of Table 33 A has a definite counterpart in the accrual and imputation perspective of the national product accounts. The counterparts of the product receipts minus expenditures n.e.c. lines for the other sectors are less easily identified. For industrial corporations total product receipts minus nonfinal product expenditures, line T, is a kind of inside funds computation. However, it differs materially from the inside funds computation of the accrual perspective: retained corporate profits after tax plus the corporate inventory valuation adjustment plus capital consumption allowances.[5] There are two major factors in this difference: (1) In the accrual computation, taxes are reckoned on an accrual basis, while the collections basis is reflected in line T. We believe the latter basis gives a truer picture of the inside funds available for capital formation. (2) In Table 33 A all business insurance premium expenditures (as well as benefit receipts) are classified as transfer payments. Line R reflects mainly the excess of premiums over benefits for industrial corporations. In the total we have called the accrual computation of inside business funds both premiums and benefits are taken into account.

[5] The author, not the Department of Commerce, is responsible for calling the sum of these three items inside funds. Moreover, capital consumption allowances of industrial corporations are not separately disclosed in the *Survey of Current Business*, July 1947 Supplement.

Therefore, if what we seek is a figure in Table 33 A that is fairly comparable to the accrual computation for all corporations, it would be better to take line T minus line R than line T alone. But for the accrual computation all corporations (including the insurance carriers) are regarded as a single transactor, so that in the consolidated statement for them it is appropriate to treat an indemnity benefit paid to an industrial corporation under a fire insurance contract as an inside source of funds, i.e., as a species of capital consumption allowance. In the moneyflows perspective such a benefit is clearly an outside source of funds, and present social accounting conventions favor classifying it as a transfer payment.[6] Accordingly we shall refer to line T as the moneyflows computation of inside corporate funds.

Similarly we consider that lines L and Z in Table 33 A portray inside noncorporate business funds in the moneyflows perspective. However, for these items the present national income and product accounts provide no close parallel, because they do not separate net owner takeouts from the rest of noncorporate business income. Nonetheless, we can say that lines L and Z, and also part of lines M, T, and a in Table 33 B correspond in the moneyflows perspective to a part of distributive shares not included in household receipts plus most noncorporate capital consumption allowances. But in this connection attention is called to the fact that insurance premiums minus benefits are the chief component not only of line R (Table 33 A) but also of net transfer expenditures of security and realty firms et al (Table 33 B, line Y) and net transfer receipts of private insurance carriers (line U).

Roughly the distributive share side of the GNP account may be thought of as consisting of three main components: (a) distributive shares going to households, (b) inside business funds, and (c) household real property taxes plus all taxes paid by all other sectors. We have commented on the moneyflows correlates of (a) and (b) in Table 33. Clearly line g in Table 33 A and line E in Table 33 B are the moneyflows correlates of (c). We shall mention only one difference between these two lines and the accrual business tax computation, the difference between tax accruals and tax collections; it applies particularly to line g.

There is, then, a definite correlate in the accrual and imputation perspective for each of the credit items in the GNP account included in Table 33, i.e., for the addends listed in the source column of Table

[6] Life insurance benefits and a part of premiums equal thereto are so treated by the national income accountant. He has not directly faced the problem of classifying benefits paid to business enterprises.

33 B, line m. There is a broad area of overlap between the two economic perspectives, and the GNP account in Table 33 attempts to make the most of it. At the same time we must not forget there are wide differences. Table 33 includes also the national account of financial moneyflows (i.e., includes Table 32). The correlate of this in the accrual perspective is the gross savings and investment account, and it is in this area that the divergence between the two economic perspectives is greatest. The original aim of the savings and investment account was to reveal the ultimate sources of capital funds — households and quasi-households — and the ultimate uses — for additions to tangible wealth and the nation's external credit. With some qualifications this is still the aim. In contrast the account of financial moneyflows aims to reveal the immediate suppliers of funds in the capital (loanfunds) markets and the immediate takers of funds. No sector is ultimate in the money circuit.

This difference of objectives leads to many differences in detailed specifications. We may indicate the nature of these differences by taking a particularly aggravated case, that of the relation between money advanced or returned by households and the Department of Commerce concept, personal saving.[7] The main factors of differences between these two flow measurements may be grouped under two heads:

1) Differences in the way the economy is divided into sectors. The account of personal income, consumption expenditure and saving includes a good many transactions that are not household transactions. The retained earnings of noncorporate businesses (including farms, professions and lessorships) are components of personal income. Landlord expenditures on durable household goods and various operating costs (of nonprofit institutions and insurance carriers) are counted as personal consumption expenditure. Since personal saving is reckoned as a residual it conceals various financial moneyflows. We may cite the following combinations of transactions in the moneyflows perspective as among those that have no direct effect on personal saving. Each of

[7] The concept of liquid savings appears to have developed because of a recognition of the difficulties of relating the accrual concept, total saving, to financial transactions. These difficulties are not materially decreased by subtracting public and corporate saving from the total — which is in effect what is done to obtain personal saving. Accurately speaking it is private noncorporate saving.

We might have referred to money advanced or returned by households as liquid saving. But there is still a very major difference between Table 18 line p and the SEC computation of liquid saving. The latter comes no closer to being a statement for households than does the Commerce personal saving computation, and does not cover as comprehensive a list of financial transactions as the moneyflows statement. Hence we think a distinctive term advisable.

them would be reflected in the national loanfund balance accounts and in Table 33.

a) A billion dollar increase in the debt of noncorporate business to households accompanied by an equal increase in net owner takeouts, or a billion dollar increase in the trade payables by households to noncorporate business accompanied by an equal decrease in net owner takeouts.

b) A billion dollar addition to the government bonds in life insurance company portfolios resulting from new premiums and an (offsetting) billion dollar increase in bank loans to farms and business proprietors and partnerships et al accompanied by a billion dollar increase in the net owner takeouts from these two sectors. (In this case there might be a concomitant visible effect in the accrual perspective that we cannot easily isolate: a small increase in personal consumption expenditure on life insurance and an equal decrease in personal saving.)

c) A billion dollar increase in household cash and an (offsetting) billion dollar liquidation of government bonds held by noncorporate business accompanied by a billion dollar increase in net owner takeouts.

d) The growth of the portfolios of endowed institutions. (We need not stop to specify this process fully in terms of the moneyflows accounts. The main source of money supporting this growth is public purpose payments from households. These endowment gifts do not show in the GNP perspective because they are regarded as gifts *inter personas.*)

2) Differences in the items counted. We might have listed here the second illustration under (1) above; it involves both the classification of items and the grouping of transactors. Other differences in items counted include:

a) The purchase of new homes by prospective owner occupants, which we treat as an household ordinary expenditure. In the GNP perspective this item is a part of gross private domestic capital formation. To the extent that such new homes are purchased clear or the mortgages put on them are acquired by households or noncorporate enterprises (including savings and loan associations) they are presumably in the GNP perspective an implicit component of personal saving.

b) The purchase of durable household goods by landlords which we treat as an ordinary expenditure of security and realty firms et al. Some of the money for this capital outlay Group X may get from inside funds; the rest must be obtained through financial channels, i.e., must be advanced (or returned) either by households or by other transactors.

So much for the differences between personal saving and money advanced or returned by households. In its present form the gross savings and investment account shows, or provides details which determine, funds advanced or obtained by three transactor groups other than persons (a) businesses, (b) government, and (c) the rest of the world. (c) differs only slightly from line i, Table 33 B.[8] (b) differs from line h, Table 33 A minus line B, Table 33 B chiefly because of the difference between tax accruals and tax collections. (a) is the algebraic sum of all other items in the gross savings and investment account, and strictly speaking it should be compared to all the other items in Table 33.[9] But it may be more useful to note the main differences between (a) and lines B + C + D minus lines M + N + P of Table 32, net money obtained through financial channels by farms, industrial corporations, and business proprietors and partnerships et al. These are the tax basis difference, the inclusion of noncorporate retained earnings in (a), the inclusion of funds for new dwelling units and lessor commercial properties in (a), and the failure to take account of most loanfund balances of farms and business proprietors and parternships et al in (a). These are not the only factors involved but they are sufficient to make (a) quite different from the net money obtained through financial channels by farms, industrial corporations, and business proprietors and partnerships et al.

Table 33 includes in addition to the moneyflows version of the GNP account and the national account of net financial moneyflows a third national account, that of net intersector transfer payments. Because it can be resolved both into these three national accounts and into a summary moneyflows account for each sector, Table 33 gives the answers to the most specific set of questions we posed in Chapter 1; where the money comes from to buy the gross national product, and where the money not used for final product purchases goes. Table 33 substantially completes the task of providing a comprehensive set of measures of main circuit moneyflows, except that we have not yet rearranged the information in the fourteen type of transaction accounts and the national loanfund balances accounts to form the statement of payments and balances for the banking sector.

Before taking up the more general questions raised in Chapter 1 we return in Chapter 10 to the subject of technical transactions and the relation between a moneyflows account and a cash account; and in Chapter 11 we attempt a reconsideration of the quantitative functions of money.

[8] Because B I in Exhibit B is not treated as a capital flow in Table 33.

[9] All, that is, except the statistical discrepancy in each account.