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Volume Author/Editor: Morris A. Copeland

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Chapter Author: Morris A. Copeland

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4 Supplements to the Proposed Statement

Table 1 analyzes government credit extended into broad categories. The two sectors of the economy that are the chief recipients, farmers and home owners, are dealt with separately. If the impact of fiscal policy on business conditions is to be traced, we need also to know what sectors of the economy hold the public debt.

Line 1, as already indicated, includes not only the direct debt of the federal government but also the indebtedness of federal agencies. It excludes federal obligations held by federal agencies. An approximate distribution of the ownership of federal issues in the hands of the public is shown in Table 4. The growth in the holdings of households (the estimates for this category are not very satisfactory) was apparently checked slightly in 1938 and 1939. From 1935 to 1940 holdings by nonfinancial corporations trended gradually downward. In 1937 there was a slight liquidation of those held by the banking system. Those held by insurance carriers increased steadily from 1935 to 1939; this increase was nearly half the increase in their total portfolios. During the war holdings of federal government debt issues by all sectors increased markedly. If the period covered by Table 4 is considered as a whole, in four of the seven years a proportionately larger part of the annual increment in federal obligations in the hands of the public was absorbed by banks and insurance companies than by other holders.

TABLE 4
Nonfederal Holders of Federal Debt Issues
(billions of dollars as of December 31)

Held by:	1935	1936	1937	1938	1939	1940	1941	1942
A All Nonfederal Holders	35.5	39.4	40.5	41.9	44.1	46.4	57.8	103.4
B Households ¹	9.3	9.8	10.4	10.0	10.2	10.7	13.6	22.3
C Nonfinancial Corporations ⁵	1.8	1.7	1.7	1.6	1.6	1.3	2.7	8.4
D Other Nonfinancial Business ^{2, 5}	.6	.7	.8	.8	.8	.8	1.2	2.1
E State & Local Governments ⁴	.3	.3	.3	.3	.3	.4	.5	.8
F The Banking System ³	19.2	21.2	20.7	22.1	23.5	24.9	29.6	54.6
G Private Insurance Carriers	3.2	4.5	5.3	5.7	6.3	6.9	8.2	11.3
H Miscellaneous Financial Enterprises ⁵	1.1	1.2	1.3	1.4	1.4	1.4	1.8	3.3
I The Rest of the World	*	*	*	*	*	*	.2	.6

* Negligible.

For methods of estimate see Appendix.

¹ Includes fiduciaries.

² Includes all nonprofit and other enterprises in the indicated industry groups that are not subject to the federal corporation income tax.

³ Includes noninterest-bearing direct debt (other than matured); a major part appears in 'Member Bank Reserves, Reserve Bank Credit and Related Items' as 'Treasury Currency'. Includes the Postal Savings System, the Exchange Stabilization Fund, and Standard Industrial Classification groups 621, 622, 623, 6241, 6242, and 625.

⁴ Includes the District of Columbia and funds of territories and possessions.

⁵ Lines C and D include the following major groups of the Standard Industrial Classification: 07 through 61 and 72 through 96; line H includes major groups 63 through 67 and 69 and 70.

To assert the advantages of a comprehensive consolidated statement along the lines of Table 1 for tracing the impact of fiscal policy

on the economy is not to gainsay the desirability of disclosing the interrelations among various federal funds. Actually, in compiling Table 1 a separate statement for each of three groups of federal funds was prepared; then the three statements were consolidated. The constituent statements (see the Appendix) all conform to the same general accounting pattern. Statements of payments and balances like Table 1, they cover:

1) Table 101, The General Fund Account. (a) General and Special Accounts receipts plus Old Age and Survivors Insurance taxes and postal revenues, and (b) expenditures from General and Special Accounts are shown in Part One; and the gross direct debt, the General Fund balance, and net due to or from other federal funds in Part Two of this subsidiary statement.

2) Tables 102, 103, and 104, social insurance funds. There are separate statements in the Appendix for the Unemployment Compensation Fund; for the Old Age and Survivors Insurance, Railroad Retirement, and various civil service retirement funds; and for the two veterans' life insurance funds.

3) Table 105, all other federal funds except those regarded as local government funds or as part of the banking system. A single statement is shown in the Appendix for this catch-all category; the figures are rough estimates.

To prepare statements of payments and balances for social insurance funds from published financial statements requires little in the way of statistical estimates. While most of the items in the General Fund statement of payments and balances can be derived from regularly compiled series, estimates of procurement, of contract construction, and of payments to Miscellaneous Federal Funds do involve substantial difficulties. In the Miscellaneous Federal Funds statement most of the items are somewhat laborious and shaky guesses; for periods prior to the fiscal year 1945 operating financial information is extremely sketchy for this sector of government and little has been done in official reports to assemble it. Sources and methods of estimates are outlined in the Appendix.

Charts 1 and 2 show total gross national product, but not the part of this product purchased by the federal government. Chart 1 shows Barger's quarterly estimates of gross national product; Chart 2 the Commerce Department estimates as they stood prior to the July 1947 revision.¹² Unfortunately, the Commerce Department was

¹² Harold Barger, *Outlay and Income in the United States, 1921-1938* (National Bureau of Economic Research, 1942), p. 119. For the Commerce Department estimates here used see, for example, *Survey of Current Business*, April 1944, p. 12. The revised estimates became available too late to be used here. See July 1947 *Survey of Current Business*. Figures for 1936-38 in Chart 1, are from Barger; the figures for 1939 were estimated on the basis of Commerce Department data.

using one definition of gross national product and has now adopted another, while Barger used still another, and these differing definitions of total gross national product require different definitions of the part of this product purchased by the federal government. In considering how federal purchases of gross national product can be measured, we shall confine ourselves to the older Commerce Department definitions for the sake of simplicity. No implication is intended as to the relative merits of the definitions. According to these definitions, gross national product, when estimated on an expenditure (rather than a sources of funds) basis, may be thought of as consisting of three parts:

- 1) Consumer expenditures or that part of gross national product purchased by households.¹³
- 2) Private capital formation or the part of gross national product purchased by the banking system, by private enterprise, and by the rest of the world (see note 13).
- 3) Selected government expenditures or the part of gross national product purchased by government (see note 13).

Part (1) includes all household general expenditures except transfer items (gifts, direct taxes, most of insurance premiums, etc.);¹⁴ expenditures for indirect investments (such as securities) are excluded as nongeneral expenditures and households are by definition (see note 13) assumed to make no direct investments in dwellings. Part (2) includes only expenditures for direct investment in new capital goods.

National income and gross national product accounting recognizes only two basic types of economic entity, the productive enterprise and the household. Now, according to the Commerce Department's definition of gross national product, the government is regarded as a hybrid entity—part consumer and part producing enterprise. For that part of the government which is consumer all general expenditures are gross national product purchases except the transfer payment items (insurance benefits, tax refunds, public assistance, etc., and grants-in-aid). For government producing enterprises only those general expenditures which go for capital formation are purchases of gross national product; i.e., only new construction expenditures

¹³ The banking system, in the Commerce Department definitions, includes essentially the funds assigned to it above for purposes of Table 4 (see note 3 to it). According to the revised definition, when a dwelling is occupied by its owner, the ownership is regarded as a private enterprise which receives an imputed rent from the occupant. The old definition omitted imputed rent from gross national product. Both definitions treat all private purchases of new dwelling units as private capital formation.

¹⁴ There is a very small deduction for net receipts from the sale of second hand goods.

and purchases of durable equipment.¹⁵ Thus payrolls and procurement of government quasi-business enterprises do not represent purchases of gross national product.

A significant advantage of the financial statement form illustrated in Table 1 is that the supporting detail underlying it provides a new basis for estimating federal purchases of gross national product, one that permits a partial itemizing of such purchases.¹⁶ To carry out this estimate of federal purchases of gross national product certain cost-accounting allocations, especially for procurement and payroll, must be made to segregate quasi-household expenditures from quasi-enterprise expenditures. During the war it is particularly important to identify as quasi-enterprise expenditures purchases of existing assets so that these expenditures will not be counted as gross national product purchases. An estimate based on a rough allocation is shown in Table 5.

TABLE 5
Estimated Federal Purchases of Gross National Product
(billions of dollars)

	1936	1937	1938	1939	1940	1941	1942
A Nonenterprise Payroll (incl. relief work)	3.3	2.8	3.3	3.2	3.3	4.2	8.9
B WPA Procurement	.3	.2	.2	.2	.1	.1	.1
C War Program Procurement	.4	.4	.5	.6	1.3	8.4	37.6
D Other Nonenterprise Procurement & Rent	.5	.5	.5	.5	.6	.5	.6
E Farm Benefits, Other Cash Subsidies, & Post Office Deficit	.4	.4	.5	.9	.9	.8	.9
F Interest on Direct Debt	.8	.9	.9	1.0	1.1	1.1	1.5
G Contract Construction	.2	.2	.2	.3	.7	2.8	7.2
H Total	5.9	5.4	6.2	6.7	7.8	17.9	58.2
J Commerce Department Estimates*	(4.6)	(6.1)	(6.8)	7.9	8.8	18.1	55.4

For methods of estimate see the Appendix.

Because of rounding, columns may not total precisely.

* Before July 1947 revisions.

Nonenterprise payroll means total payroll minus the payrolls of the Post Office and of federal corporations and credit agencies. Similarly, non-enterprise procurement and rent (lines B, C, and D) means total procurement and rent minus procurement and rent for the Post Office and for federal corporations and credit agencies.¹⁷ However, in this case the procurement of the Maritime Commission and the net commodity procurement of the Commodity Credit Corporation and various war corporations (that is, purchases minus sales) are not deducted. Maritime Commission procurement, since

¹⁵ Theoretically, account should also be taken of government inventories, but satisfactory data are lacking.

¹⁶ A similar estimate has been made for state and local governments.

¹⁷ The subclassification of procurement and rent (lines B, C, and D) follows functional lines. With existing data it is difficult to make a good object subclassification.

it is a part of war procurement, is regarded as a part of gross national product purchases. The reason for counting the net commodity purchases of these other corporations as government gross national product purchases is that they constitute an implicit type of subsidy.

Subsidies are a special item in government purchases of gross national product. They represent a part of the value of gross national product going to private parties that is defrayed by government, not by the private parties. Since this value is included in total gross national product,¹⁸ it is to be regarded as a part of government purchases of gross national product. Line E gives federal farm benefits and other cash subsidies, together with the postal deficit which measures approximately the extent to which the postal service is subsidized.

What interest item should be included in federal purchases of gross national product depends upon what interest component is included in total gross national product.¹⁸ In Table 5 interest on the direct debt is taken as this component.

Contract construction appears as a part of gross national product purchases for both consumers (households) and productive enterprise. Theoretically a small deduction might be made from this item in the case of government for contract repairs to quasi-enterprise government property, but this adjustment would scarcely affect the estimates.

Commerce Department estimates of total federal purchases of gross national product (as they stood before July 1947) are given on line J by way of comparison (comparable detail cannot be provided for these Commerce figures). The figures for 1936, 1937, and 1938 are older estimates, not quite comparable with the others. Except for 1936 the Commerce Department figures for the prewar years ran appreciably higher than those in line H. The sharper increase in line H than in line J in 1941-42 is believed to be due mainly to differences in the adjustments applied to cash expenditure data so as to show purchases in the year in which they were charged to the government's account on the books of contractors rather than when the settlements were made.¹⁹

In attempting illustrative interpretation of Table 1 in Section 2, it was noted that contract awards precede expenditures for purchases of goods and services and contract construction costs (lines S and Q) and also that appropriations precede contract awards. It would be

¹⁸ The July 1947 revision excludes these two items from total gross national product and from federal purchases of gross national product.

¹⁹ A preliminary examination of the new Commerce Department figures indicates that, after allowing for the change in definition, they agree more closely with line H than does line J, except in 1942.

helpful to the analyst of business conditions to have a further supplement to Table 1 showing unfilled orders as of the end of each year. Also if lines S and Q were to be shown quarterly, it would be desirable to know both unfilled orders and available funds uncommitted as of the end of each quarter. No supplementary exhibit of this type has been attempted here because information on uncommitted funds is not very significant on an annual basis and because government financial records during the war years did not accurately reflect unfilled orders. Agencies report the obligation of funds currently, but particularly in the case of war agencies such information has been difficult to interpret. War program funds were frequently obligated by contracting officers prior to the making of contracts merely on the basis of letters of intent or other informal commitments. However, since the war, regulations governing the obligation of funds have been tightened. It would be desirable to have a current public release reporting both obligations incurred but not yet liquidated and unobligated funds available as of the end of the quarter. Incidentally, we may note that while there is urgent need for information on unliquidated obligations as of the end of the fiscal year, if appropriation procedures are to be intelligent, relatively little attention has been given to this type of data to date.

5 Conclusion

The main points made in this Paper regarding the new type of financial statement here proposed for the federal government are in brief: The lack of an official federal financial statement that can be used to trace the impact of fiscal policy on business conditions is a serious gap in our economic information. This gap can be filled by a statement of the type illustrated by Table 1, a comprehensive consolidated statement of payments and balances in which general expenditures are classified by object of payment. Such a statement can be provided by first compiling, then consolidating separate statements for the various groups of federal funds. The supporting detail required for the subsidiary statements yields an improved basis for estimating federal purchases of gross national product.

From a statement along the lines of Table 1 an over-all picture of the dealings of the federal government with the public can be obtained in a form that facilitates relating the broader detail of federal finances to various business indicators. Federal government payrolls can be related to other payroll data, federal procurement to data on production, federal credit to the portfolios of other credit institutions, etc. But if such a statement is to be currently useful, additional steps must be taken: