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CHAPTER I. SUMMARY OF FINDINGS AND RECOMMENDATIONS

In this brief summary the committee's main findings and recommendations are set forth in nontechnical language. This summary cannot repeat the explanations and qualifications contained in the body of the report which are indispensable for a full appraisal of the committee's recommendations.

1. SCOPE OF NATIONAL ECONOMIC ACCOUNTING

National economic accounting may be defined as the systematic arrangement of statistics that describe the operation of the Nation's economy during a year (or a shorter period) in much the same way as business accounts describe the operations of an enterprise. The national economic accounts are made up of five main segments:

(a) The national income and product accounts register the value of the output of finished goods and services of the Nation and the incomes flowing to the various groups as a result of their contribution to output. These accounts make up what are commonly called national income statistics. They are published on a regular annual and quarterly schedule.

(b) The international balance of payments statement reflects and classifies all payments occurring between the United States and foreign countries. It is published on an annual and quarterly basis.

(c) The flow-of-funds statements, also known as moneyflow statements, show the total funds received by the various groups—households, business and financial enterprises, and Government—and the use they make of these funds. Transactions in existing assets are included in the flow-of-funds statements, but are excluded from the income and product accounts. Flow-of-funds statements are now prepared annually.

(d) Input-output tables trace in detail the purchases and sales of raw materials, semifinished goods, finished commodities, and services among industries, using a much finer industry and commodity classification than is possible in income and product accounts and in flow-of-funds statements. Because of their great detail, input-output tables have been drawn up only occasionally—the last time for 1947—rather than on a regular schedule.

(e) The national balance sheet lists, for the various groups and for the Nation as a whole, the value of tangible and intangible assets and of liabilities, in the aggregate and by type, and shows the difference between assets and liabilities, usually called net worth or equity. The listing of tangible assets—land, structures, equipment, inventories, etc.—is sometimes referred to as a national wealth statement. National balance sheets and related statements have been compiled only for a limited number of dates and only unofficially.

2. FINDINGS

(a) In the two decades since the national income and product accounts were added to the economic intelligence of the United States, national economic accounting has become one of the chief tools for the formulation of Government economic policy and of

business policy. Most long-range policy decisions of the Government, of large business enterprises, and of many trade associations and labor and agricultural organizations now are formulated within the framework of the national economic accounts, explicitly or by implication. The use of data from the national economic accounts is also frequent in the formulation of short-range decisions. Market analysis as we know it today is hardly possible without national accounting data. The agencies of the Federal Government that are concerned with economic stability—e. g. the Council of Economic Advisers, the Board of Governors of the Federal Reserve System and the Treasury Department—could not function as they do without the national economic accounts or something very similar to them. The Congress, and particularly the Joint Economic Committee and the Joint Committee on Internal Revenue Taxation, would also be considerably hampered in their operation without national economic accounts. The work of all these agencies would benefit from improvement of the national economic accounts.

(b) Work done in the United States, both inside and outside of Government, has made significant contributions to the development of national economic accounting. The United States is still alone in having detailed flow-of-funds statements and national balance sheets covering a considerable period of time. However, our needs for accurate and up-to-date national economic accounting data for Government policy and business planning have increased even more rapidly than the improvements made in this field.

(c) The quality of the estimates is by and large as good as the primary data and the funds available for their processing and analysis permit. The estimators of the national economic accounts have extracted very nearly as much information from the available statistics as is possible with their limited funds. The committee, in its numerous contacts with users, has heard no complaints about the competence or impartiality of the estimators.

(d) With very few exceptions the requirements for better and more detailed national accounting data, and data better fitted to users' needs, call for improvement in, or addition to the stock of primary statistics with which the national accountant must work. There is urgent need and ample room for such improvements and additions. The most important gaps in the basic data occur in the fields of small (unincorporated) business; and of capital expenditures, both public and private.

(e) The structure of the accounts, particularly the integration of the five main sets of accounts, is open to improvement. This is one area where the United States seems to have fallen behind those foreign countries that have advanced most rapidly during the past decade in building up a systematic set of national economic accounts.

(f) The National Income Division of the Office of Business Economics of the Department of Commerce, which is responsible for the national income and product accounts, has performed most creditably considering how understaffed and overworked it is, but it urgently needs reinforcements. The Division has been able to maintain, or even to increase, its volume of output of current statistics only by delaying needed extensions of the data, by postponing repair and maintenance work on some of its figures and by limiting its

experiments with alternative estimating procedures. As in business such a process of retrenchment cannot be continued indefinitely without serious consequences.

3. *Recommendations*

The following very brief summary of the more important recommendations made in the report omits those that are of interest primarily to specialists. The recommendations are given without regard to the order in which they appear in the report; without indicating the reason for making each recommendation; without discussing the technical problems involved; and without indicating in detail when and how each of the recommendations is to be achieved—all matters discussed in more or less detail in the body of the report. Chapter III in particular, which sets forth the considerations that have guided the committee in its recommendations, may be regarded as an essential supplement to these pages. Compressed as they must be here the committee's recommendations may appear to constitute a sharper break with present practice than is actually the case.

The committee's recommendations can be grouped roughly into five major categories: (a) improvements in the basic data; (b) changes in the structure of the national economic accounting system; (c) improvements in the national income and product estimates; (d) improvements of estimates of other segments of the national economic accounts; and (e) organizational changes. The order of the recommendations under each heading is not necessarily an indication of their relative importance. The figures in brackets indicate the portions of the report in which the full recommendation is discussed.

(a) *Improvements in basic data*

Most national economic accounting figures are built up like a mosaic from very varied primary statistics, that are not primarily collected for use in the national accounts. Improvement in these basic data is thus a prerequisite for most of the substantial improvements in the quality or scope of the estimate in the national economic accounts recommended by the committee.

The committee, therefore, urges in the strongest possible terms the improvement of the data underlying the estimates that are entered in the national income accounts. Although we have not attempted to survey all aspects of data adequacy, some data problems are discussed in the report. Other data are widely recognized as being inadequate and hence have not been examined in detail.

We are inclined to attach the highest priority to improvements in eight areas, all of which are essential not only for the improvement of the national economic accounts, but are of value in and of themselves for current economic analysis:

(1) The financial situation of noncorporate business—profits, capital expenditures, investment, and withdrawal of capital by owners (ch. XI, sec. 2.a).

(2) The current earnings and financial situation of corporations outside of the well reported manufacturing sector (ch. VIII, sec. 1).

(3) Detail on inventories by durability and end-use; additional information on inventory accounting practices; and more reliable

information on the prices significant for deflating inventory book values (ch. XI, sec. 2.b).

(4) Detail on sales by manufacturers and by retailers by commodity line, or similar detailed grouping, and by major buyer groups; including the purchase of durable goods cross-classified by type of commodity and industry of buyer (ch. VII, sec. 4).

(5) The current value of construction, in particular new non-residential construction and repair and maintenance on all types of structures (ch. VII, sec. 4).

(6) Classification of Government purchases by type of commodity (ch. VII, sec. 2.b).

(7) Adjustment for under- or over-reporting of income and business expenditures of individuals, partnerships, and corporations as disclosed by audit control studies (ch. X, sec. 2; ch. XI, sec. 2.a).

(8) Additional price data to extend and improve the deflation of various segments of the national economic accounts (ch. VI).

In most of these areas, improvements call mainly for an extension of existing Government programs or for the restoration of programs that have been curtailed or abandoned because of budgetary restrictions. Since these improvements involve the work of many agencies we urge the Office of Statistical Standards to expedite the development of a consistent program for them, and express the hope that the Congress will give sympathetic attention to the need for such essential basic statistics.

(b) Changes in the structure of the system of national economic accounts

(1) The five segments of the national economic accounts, which have hitherto led rather independent lives, should be integrated into a single national economic accounting system. This recommendation for the development of a conceptually integrated system of national economic accounts is one of the main recommendations of the committee, if not the most important one. This integrated system contains elements which can be implemented immediately. It also provides a framework for the future integration of flow-of-funds, input-output, balance of payments, balance sheet and national wealth data with the income and product accounts (ch. V, sec. 4, and appendix A).

(2) For the national income and product accounts a functional five-account system is recommended for immediate implementation, and it is hoped that the accounts showing changes in assets and liabilities for various institutional sectors can follow shortly (ch. V, sec. 5, and appendix A).

(3) Separate figures should be shown for the income and expenditures of a number of sectors that are now combined in one "household" sector, viz: nonfarm households, farm households, nonprofit organizations (such as educational institutions, churches, foundations, and labor unions), private pension, health and welfare funds, and personal trust funds. At a later date figures for owners of unincorporated nonfarm business should also be presented separately (ch. VII, sec. 1).

(4) Separate and more detailed figures should be shown for the Federal Government, for State governments, for local governments, and for Government enterprises. The estimates should also provide

a reconciliation with published Government budget data (ch. VII, sec. 2).

(5) Figures should be provided to permit users to treat purchases of consumer durables and Government outlays for structures and equipment as capital expenditures which increase the stock of material wealth (ch. VII, sec. 1.c and 2.b).

(6) Estimates of depreciation allowances and stocks of reproducible durable assets should be shown on the basis of replacement cost as well as original cost—the present basis—so that users may work with the figures most serviceable for their purposes (ch. VII, sec. 5).

(7) A change-in-assets-and-liabilities account should be set up for each of the main groups—households, business, and Government—subdivided as suggested in (3) above. Such an account would provide a link between the income and product accounts and the national balance sheets (ch. V, sec. 6).

(8) As a further link between income and product accounts and national balance sheets—and because of the importance of the figures for many questions of economic policy—estimates of realized capital gains of the main sectors should be provided as an integral part of the system of national economic accounts. These estimates should be extended as soon as the data permit to unrealized capital gains (ch. VII, sec. 1.d).

(9) As an increasing proportion of large business enterprises and Government agencies shift to electronic accounting, a large body of new data may become available to the compilers of the national economic accounts and old data will become available much more rapidly. To insure that the national economic accounts make full use of these potentialities a thorough investigation of the technical problems involved should be made by a study group of economists, statisticians, accountants, comptrollers, and computer engineers (ch. XV).

(c) Improvements in the national income and product accounts

(1) More emphasis should be put on the development of estimates of national product and income in constant prices. These figures are as essential for a full appraisal of economic growth and structural changes in the economy as the usual estimates which are expressed in fluctuating current prices. Estimates of the real product of various industrial sectors should be developed, and greater detail is needed on the present estimates of consumption, investment, and Government expenditures in constant prices (ch. VI).

(2) The estimates of national product in constant prices should be published quarterly rather than only at annual intervals which are too long when prices change as rapidly as they have done in the post-war period (ch. VI, sec. 2).

(3) The quarterly national income and product estimates should be released in somewhat greater detail (ch. VIII, sec. 3).

(4) To enable business and economic analysts to make use of the latest figures, significant revisions in quarterly and annual estimates should be published currently rather than held—as is now the general practice—until about 6 months after the end of the year (ch. VIII, sec. 4; ch. XI, sec. 1.c).

(d) Improvements in estimates of other segments of national economic accounts

(1) The flow-of-funds statements, now available annually, should be put on a quarterly basis and released within about 3 months after the end of the quarter. This is necessary if they are to be used in the current analysis of the capital market, a purpose for which they are eminently suited (ch. XII, sec. 2).

(2) Continuous efforts should be made to put the flow-of-funds statements more consistently on a gross basis; to show separately purchases and sales rather than only the net balance; and to use actual flow figures rather than to infer them from unadjusted changes in reported holdings. These improvements will increase the accuracy of the flow estimates for intangible assets, particularly for stocks and bonds (ch. XII, sec. 2).

(3) Preparations should be made to utilize the results of the 1958 economic censuses to build up an input-output table for that year. No input-output table has been available for a period later than 1947, and a more up-to-date table will be helpful in many fields of economic and business analysis, even if it is less detailed than the 1947 table (ch. XIII, sec. 5).

(4) Consideration should be given to utilizing the 1960 census of population as the occasion for a concerted effort on the part of Federal statistical agencies to fill some of the gaps in our knowledge about the distribution of personal income by size (ch. X, sec. 11).

(5) A thorough study should be made of the conceptual and practical problems of constructing national and sectoral balance sheets. This study, which might well be undertaken by a private research organization, could serve as the basis for regular, and ultimately annual, estimates by a Government agency. Once this stage is reached the main gap in the official interrelated system of national economic accounts which is our goal will be closed (ch. XIV, sec. 5).

(e) Organization of national economic accounting work

(1) The summary integrated system of national economic accounts should be prepared and published by one agency within the Federal Government to insure that a fully integrated set of data which are internally consistent will be prepared, appearing at regular intervals in a single publication. Different agencies will be concerned with the detailed estimation of different segments of the national economic accounts for their own operating use (e. g., input-output tables, flow-of-funds statements, balance-of-payments tables). Collection of the basic statistics used in the various national economic accounts will necessarily continue to be divided among many agencies (ch. IV, sec. 3).

(2) A substantial increase in the staff of the National Income Division of the Department of Commerce, which now provides all our national income and product estimates, is an urgent necessity and a prerequisite of many of the committee's recommendations. Such an increase is the more urgent as the size of the Division has been reduced by about one-fourth since 1950 while its responsibilities have expanded (ch. IV, sec. 3).

(3) The increase in the National Income Division's budget should be sufficient to permit the addition of a Research Section which should assess the accuracy of the estimates available, continuously

explore the possibilities of improvements in the estimates, experiment with alternative concepts and data sources, and consider basic problems which cannot be adequately handled by the other sections that are fully occupied with the task of preparing current estimates (ch. IV, sec. 3).

4. COSTS, TIMING, AND PRIORITIES OF RECOMMENDATIONS

Three important problems that arise in connection with the implementation of the committee's recommendations remain to be considered: the costs involved in the recommendations, the timing of the recommended improvements in and additions to our national economic accounts, and the order of priority among the recommendations.

The proposals made in this report are not costless. Even though the committee suggests that on a number of controversial problems exploratory work should be continued and intensified, by private research organizations, it also recommends a considerable expansion of the statistical activities of the Federal Government.

The committee is aware of the responsibility of anybody who, in the light of an already large Federal budget, recommends additional expenditures. However, all the major economic statistical programs of the Federal Government, including those of the Federal Reserve Board, have in recent years cost between \$35 million and \$45 million per year. This is a very small item—about one-twentieth of 1 percent—in the Federal budget, and most of it is spent for purposes other than the needs of the national economic accounts. The relatively small increase in these outlays that would be necessitated by the committee's recommendations is not only compatible with increased economy and efficiency in Government and business, but is essential to accomplish these goals given the widespread private and public use of the data. It would be false economy to abandon or postpone much-needed improvements in our economic intelligence. In terms of improved business management and more rational Government policies hardly any other expenditure by the Federal Government promises higher dividends.

The committee recognizes that not all of its recommendations could be carried out at the same time. We have indicated in the text the recommendations that could be executed promptly, those that require a longer time for implementation and those that we regard as long-range objectives.

In addition to the improvements in the structure of the national economic accounts, we recommend early implementation of those measures that would substantially improve the data used in the national income and product accounts, particularly those that would give valuable insights into economic behavior by providing information separately on a larger number of significant sectors of the economy. We suggest that the recommended changes in the flow-of-funds statements be given prompt attention by the Federal Reserve Board, partly because these statements are already being prepared regularly and partly because they tie in closely with the income and product accounts. We also recommend early strengthening of the staff of the National Income Division, including the establishment of a research section which can devote its efforts to developmental work.

The committee regards as supplementary though important recommendations, particularly for the long-range development of the national economic accounts, the establishment on a regular basis of two segments of the integrated national economic accounting system in addition to the now existing segments (national income and product accounts, flow-of-funds statements, and balance-of-payments tables), viz input-output tables and balance sheets. The committee does not regard these various proposals as competing with each other. Each of them has an important place in the development of a comprehensive system of national economic accounts.

CHAPTER II. ORGANIZATION AND ACTIVITIES OF COMMITTEE

1. TERMS OF REFERENCE OF COMMITTEE

The National Accounts Review Committee was set up by the National Bureau of Economic Research at the request of the Office of Statistical Standards of the Bureau of the Budget. Arrangements were concluded early in November 1956 and the committee began to operate immediately thereafter, holding its first meeting on November 11.

The main function of the committee, it was agreed, was to "undertake a review of the national income accounts and closely related accounts now being prepared or requiring preparation by the Federal Government, and make recommendations concerning needed improvements and additions for more effective analysis. The objective of the review is to provide a thorough examination and evaluation of the national income accounts and related accounts and to devise a program to effect further improvements in the accounts when feasible. The review is to ascertain what reorientation in concept and statistical procedure is required in the accounts in order that they may serve Government and private uses most effectively." The committee interpreted the term "related accounts" to include classifications of the well-known national income and product account by sector, by size of income and other characteristics of households, and by State, or other area; as well as the more recently developed segments of a complete system of national accounts, namely, flow-of-funds statements, input-output tables, national balance sheets, and the old established balance of international payments.¹

The national bureau entrusted the conduct of the study specified in the contract to a committee consisting of the following members:

- (1) V. Lewis Bassie, professor of economics, University of Illinois.
- (2) Gerhard Colm, chief economist, National Planning Association.
- (3) Richard A. Easterlin, associate professor of economics, University of Pennsylvania.
- (4) Edwin B. George, director of economics, Dun & Bradstreet, Inc.
- (5) Raymond W. Goldsmith, member, research staff, National Bureau of Economic Research—Chairman.
- (6) Joseph A. Pechman, research staff, Committee on Economic Development.
- (7) Roy L. Reiersen, vice president, Bankers' Trust Co.

¹ The various segments of a system of national accounts are briefly described in ch. V, sec. 1. Somewhat more detailed descriptions will be found in chs. V, sec. 3, IX, X, XII, XIII, and XIV.