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Saving

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NATIONAL BUREAU OF ECONOMIC RESEARCH

THERE are, it seems to me, two good reasons why this discussion of saving within the system of national income accounts of the Department of Commerce should be very brief. First, if we stay strictly within the limits of our topic, we need to deal only with saving, derived as a residual between current income and current expenditure, as an integral part of the National Income Division's system of accounts. This residual, however, has no independent standing. Comments on it would be to a large extent comments on definition or calculation of income and expenditures, particularly capitalizable expenditures, and these subjects have been discussed in the other papers. It should be noted, however, that because of the relatively small size of the residual even modest changes in income and expenditures can produce large effects on the estimate of saving. Hence, stricter standards and higher degrees of accuracy are required of estimates of income and expenditures when they are used to derive saving than when they are built up for their own sake. Second, the estimate of saving in the national income accounts has recently been the subject, together with other data on saving, of two rather detailed reports. One (unpublished) was made in June 1954 by the Interagency Committee on Saving Estimates of the Office of Statistical Standards; the other by the Committee on Savings Statistics, set up by the Board of Governors of the Federal Reserve System in accordance with the request of the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report. As I cannot escape some responsibility for the latter report, I do not want to repeat, or for that matter contradict, myself more than is necessary.

In this situation I propose to limit this note to a list of suggestions for changes in, or additions to, the present system of national accounts that appear to be called for, or at least seem desirable, in the interest of either a conceptually more satisfactory or a statistically more reliable measure of saving.

This listing is strongly influenced by the conviction, stressed repeatedly in the report of the Board's Committee, that statistics of saving, because of the multiplicity of purposes which they serve, require a particular degree of flexibility. This means that in cases where there is

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legitimate doubt whether or not certain types of expenditures should be regarded as saving—for instance, household expenditures on durable consumer goods, or government expenditures on durable tangible assets—or where doubt exists about the group which should be credited with the saving—as for example in the case of governmental trust and pension funds—the figures should be provided in a form that enables the user to include the disputed items or to omit them. This, of course, is possible only if separate figures are given, for example for capital expenditures and for capital consumption allowances, from which estimates for gross or net saving in the desired form can be derived. The NID—or any government agency—should not be, and I am certain does not want to be, the arbiter of what is to be regarded as saving, not even indirectly by failing to supply the data wanted by a substantial proportion of actual or potential users of its statistics.

SEPARATE ESTIMATES OF SAVING FOR COMPONENTS OF PERSONAL SECTOR

A breakdown of the personal sector into four subsectors, namely, non-farm households, farmers, unincorporated business enterprises, and private nonprofit institutions, of course leads the list of desiderata. This classification would permit the calculation of separate estimates of saving for these four groups and would thus provide figures which are regarded by most users of saving statistics as one of the main prerequisites for intelligent analysis. If this request is interpreted as requiring segregation of every item of income and expenditure, its satisfaction is obviously fairly far off in the future. However, if the call is only for separate figures for total income and expenditures, or possibly a few chief components of each—and that is enough for the statistics of saving and seems all that Martin R. Gainsbrugh suggests—one would hope that the NID would provide the data for farmers and for nonprofit institutions in the not too distant future.

SAVING-INVESTMENT ACCOUNTS FOR ALL SECTORS

Probably next in urgency is the presentation of a saving-investment account for each sector, as well as for the subsectors of the personal sector. The desirability of these sector accounts has been recognized by the NID.¹ May we hope that the word “yet” in the NID’s statement that the construction of these accounts “cannot yet be made an integral part of the national economic accounting system” implies only a short delay? If it implies more than that, it would be interesting to have the reasons that prevent the presentation of these accounts set forth in some

¹ *National Income Supplement, 1954, Survey of Current Business*, Dept. of Commerce, p. 57.

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detail, since only one of them, the absence of estimates of capital expenditures and capital consumption allowances of the government—to be discussed below—seems to present a serious problem.

ESTIMATE OF GOVERNMENT SAVING

Those who put store in conceptual neatness—possibly an unwarranted luxury—will regard the present practice of substituting the government's surplus or deficit on income and product transactions for government net saving as an unfortunate blemish. More serious, however, is the fact that the absence of figures for government net saving, calculated in a way comparable to the saving in the personal and business sectors, is an important drawback in any long-term analysis of saving and investment, and is not without serious inconvenience in short-term analysis. It is even more of an obstacle to closer international comparisons. To fill this gap it would be necessary to separate the expenditures of the government into those that are capitalizable, that is, that add to the government's stock of reproducible tangible assets, and those that are not. It would also call for an estimation of capital consumption allowances on the government's stock of reproducible tangible assets, and might in addition require estimates of the use value of this stock parallel to the present imputation of rent on owner-occupied residences. We may of course discuss endlessly whether a lecture hall or a dormitory owned by a state university is something intrinsically different, from the point of view of the national accounts, from one owned by a privately endowed college or a preparatory school run for profit. But it is difficult to doubt that the national income accounts would be more informative for virtually every purpose if they showed separately government expenditures on durable tangible assets, further segregating military from civilian assets, and the capital consumption allowances on the stock of such assets. Those who still believe that the concepts of investment and saving should be limited to assets that are directly productive of private income could be left undisturbed in their thinking by combining current and capital expenditures of the government and disregarding capital consumption allowances. At the same time those who feel that the segregation of capital expenditures and the consequent possibility of deriving a figure for government saving that is conceptually parallel to that used in other sectors is important would be enabled to arrange the figures accordingly. Even if this conceptual hurdle is taken there would, of course, be some difficulties in producing useable estimates. I am not convinced that these difficulties are greater than many others which the NID has surmounted to its own satisfaction and with the acceptance of most of the users of these figures.

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ESTIMATES OF SAVING THROUGH CONSUMER DURABLES

The case for providing estimates of saving through consumer durable goods, irrespective of whether or not they are treated in the official accounts as part of saving and investment, is even stronger, both for conceptual reasons and because of the absence of serious difficulties of estimation. The arguments for including consumer durable goods in estimates of saving are well known. In the modern American economy many consumer durables, particularly passenger cars, are direct substitutes for producer durables. Purchases of at least some consumer durables are regarded in a different light by consumers from their current expenditures. Consumer durables provide the basis for a substantial volume of debt. There is little doubt that the stock of consumer durables constitutes a part of national wealth, and it is desirable that as far as possible the national accounts preserve the parallelism between saving and changes in national wealth. The omission of consumer durables occasionally produces sharp fluctuations in saving that have little meaning, as for instance in 1950 to 1951. Whether or not these arguments persuade the national income estimators themselves to include consumer durables in their estimate of national saving and investment, they are weighty enough to entitle users to be provided with the material necessary to derive an estimate of saving that includes consumer durables. Since expenditures for consumer durables are already shown separately in the national income accounts, this requires only the calculation of depreciation allowances and the estimation of the imputed use value of consumer durables, the latter to be treated in a manner parallel to imputed rent.

CLOSER ESTIMATE OF EXPENDITURES ON CONSTRUCTION

Without encroaching on the discussion of capital expenditures, I would like to suggest that at least expenditures on residential construction be carefully examined, particularly in order to correct the possible—I should say the probable—underestimation of expenditures on additions and alterations.² The amounts now missed may not be very large compared to gross national product, or even to gross capital ex-

² An idea of the order of magnitude of the adjustment may be derived from the fact that a special survey of the Bureau of the Census (*Housing and Construction Reports*, Series H-101, No. 1, December 18, 1954) put expenditures on additions and alterations on owner-occupied residential properties with one-to-four-dwelling units during the first five months of 1954 at \$1,743 million (this figure includes expenditures by farmers, but the amount spent by them is small). The corresponding estimate of the Construction Division of the Department of Commerce (*Survey of Current Business*, March 1955, p. S-7), which is used in the national income accounts, is only \$402 million. We are not dealing here with bagatelles.

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penditures, but they are significant for the measurement of aggregate net saving and in particular of personal net saving through real estate. Such an upward adjustment may also be called for to preserve equality, or a reasonable approach to it, between the value of residential structures as determined by census enquiries and cumulated price-adjusted depreciation expenditures on residential construction. Similar problems, though of greater technical difficulty, are encountered with the force account work of large corporations and additions and alterations to the property of small business enterprises. Here again the figures now being used may significantly understate net capital expenditures and, hence, net business saving.

INDEPENDENT ESTIMATES OF CAPITAL CONSUMPTION ALLOWANCES

Since the problem of capital consumption allowances forms the subject of a separate discussion, it may suffice to say here that from the point of view of the measurement of saving, replacement costs are preferable to original costs as a basis of depreciation allowances, thus agreeing with Everett E. Hagen's argument. The main reason—entirely disregarding the good basic case of the conceptual incompatibility between capital consumption allowances based on original cost and current expenditures in the national income account—is that net saving through tangible assets can be deflated only if capital consumption allowances are calculated on a replacement cost basis. (The result—the derivation of estimates of net saving in stable prices—could of course also be reached by deflating gross capital expenditures and by calculating depreciation throughout on the basis of these deflated expenditures.)

More important for the analysis of saving, particularly in the long run, is the changing content and the doubtful economic significance of the depreciation allowances reported in tax returns, which form the basis of "business depreciation charges" in the national income account. It has always been doubtful whether the far from systematic allowances for depreciation which individual corporations enter in their tax returns, dominated as they are by the changing vagaries of revenue legislation and differing, as they frequently do, from the capital consumption allowances in the books which guide management decisions, should be accepted as a crucial element in the calculation of national saving. Expediency, reinforced by the understandable aversion from developing estimates *de novo* when seemingly useable figures are at hand, has of course been the main reason for the present practice. The time seems to have come, however, to reconsider the situation. Recent revenue legislation gives business enterprises so much latitude in estimating capital

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consumption allowances for tax purposes that comparability among industries and over time are likely to be lost—and their comparability was never beyond doubt. This freedom may be expected to lead to even more pronounced short-term variations in capital consumption allowances and to even greater disparities between the allowances and what the economic analyst can regard as appropriate.³ Very serious consideration should, therefore, be given to estimating corporate depreciation allowances along the lines now used for depreciation allowances of unincorporated business, agriculture, nonprofit institutions, and homeowners,⁴ and that will soon have to be used for the depreciation allowances on government property and consumer durables. That is, an independent set of capital consumption allowances should be built up from estimates of past capital expenditures and from appropriate assumptions regarding length of service life and the shape of the remaining value curve for different types of assets. I can see only advantages in such a step. Once it is taken, all capital consumption allowances in the national accounts can be put on a consistent basis, and we will be able to experiment freely with alternative bases and methods for the calculation of capital consumption allowances. The pressure to institute a thorough study of actual depreciation practices and of actual service lives, and the need to rethink the concepts of capital consumption allowances in the national accounts, which the shift will engender, are, it seems to me, arguments for rather than against the change. Should such a program be regarded as too far-reaching for the near future, the calculated capital consumption allowances—consistent with those for other sectors—should at least be shown as supplementary information.

SEASONALLY UNADJUSTED ESTIMATES OF SAVING

The national income accounts, as now presented, do not include a series for seasonally unadjusted personal saving. The absence of this series is due to the fact that some income figures, particularly those for agriculture, are nowhere given in entirely unadjusted form. Many analysts, however, prefer to work with unadjusted figures, particularly when comparing them with estimates of saving from the balance sheet, or to work out their own adjustments. They should be accommodated even if there are some difficulties in furnishing them with entirely unadjusted figures.

³ Compare Eric Schiff's discussion of basic differences between "replacement" as seen by business and by the economist.

⁴ These estimated allowances are already now larger than corporate depreciation allowances taken from tax returns. The predominance of "calculated" depreciation allowances will, of course, become much more pronounced once consumer durables and durable tangible assets of the government are included in saving.

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QUARTERLY RECONCILIATION WITH PERSONAL SAVING ESTIMATES FROM BALANCE SHEET

The Committee on Savings Statistics found that the innovation most strongly desired by many users of the quarterly statistics of saving of the NID was a reconciliation of the figures with the estimates of the Securities and Exchange Commission, along the lines now given on an annual basis in Table 6 of the *National Income Supplement, 1954*. Such a quarterly reconciliation would call for a number of figures not now released, particularly estimates of gross and net expenditures of unincorporated business, farmers, and nonprofit institutions; of plant and equipment; and of net changes in inventories. The publication of these figures should not present serious difficulties as they are derived in the national accounts—though often by rough allocation—from primary data now available on a quarterly basis. It should also be possible without too much trouble to prepare quarterly estimates of the mortgage debt of farmers and nonfarm business enterprises, which are also needed for the reconciliation. The main difficulty will be presented by the estimates of change in net short-term debt of unincorporated business and of farmers. Even the annual figures now used in the national income accounts are very unreliable, as the NID would be the first to stress. It would seem that only a major effort, possibly involving sample surveys, could provide the necessary data.

C O M M E N T

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On the Schiff Paper

I shall confine my comments on Eric Schiff's paper to his proposals for the extension of the gross capital formation concept. My inclination would be to explore first the area of expenditures for parts, repairs, and maintenance, which he does not mention. I am much more skeptical about the venture into the territory of intangible research and development expenditures. An attempt to extend the concept very far beyond the tangible might involve us in a morass of conceptual and statistical difficulties.

Undoubtedly, there are many good reasons for the inclusion of research and development expenditures in capital formation. But not all of those advanced by Schiff seem valid to me. For instance, it is true that, according to present procedure, government expenditures for these items are included per se in the government purchases component

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of gross national product whereas business expenditures for similar items are not included in the list of final products privately purchased. Similarly, private expenditures for the transportation of goods are listed separately if the goods are bought f.o.b. by consumers but do not appear explicitly if they are bought c.i.f. To adduce the former circumstance in favor of the treatment of research expenditures as capital formation seems no more valid than to adduce the latter circumstance in favor of the treatment of transportation expenditures incurred by business as capital formation.

On the Fabricant Paper

My position on most of the points on which my views diverge from those asserted here by Solomon Fabricant is stated in my paper and, in some instances, is further elaborated in comments on the other papers. To list the major issues between us: I do not believe that there is an intermediate product of government that should be eliminated; I am somewhat skeptical of the practical usefulness of imputing a rate of return to government property; I feel that the introduction of revalued capital consumption allowances into the official national income statistics is a matter in which one should move with caution; my dissatisfaction with the present treatment of depletion differs from his; and as between the two ways of deflating the foreign balance his first preference is my second.

I note with interest Fabricant's suggestion that, for analysis of the distribution of purchasing power, both capital consumption allowances and inventories should be revalued by means of a general price index rather than by specific price indexes. I shall want to think further about this proposition, along two lines.

First, for what purposes is it interesting and useful to calculate measures of purchasing power? For instance, it would be easy to specify the analytical uses that call for, and at the same time guide, the construction of a measure of the purchasing power of consumer households, but it is not immediately apparent what analytical uses would call for and guide the construction of a measure of the purchasing power of the various industries. Only if some analytical use were specified could one properly evaluate the central assumption implicit in Fabricant's concept of purchasing power. This is that investors do not particularly intend to maintain the real stock of their capital and hence consider that they have gained purchasing power if the cost of replacing their capital goods rises more than do the prices of goods and services in general.

Secondly, it will be recognized that Fabricant's concept of pur-

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chasing power thus includes elements that are closely akin to realized capital gains and losses. Should these gains and losses be integrated into the framework of national income statistics by the device he proposes? Would it not be better to continue to exclude them from current income flows, and to deal with them systematically under the special heading of capital gains and losses? Furthermore, many purposes which call for a recognition of capital gains and losses arising from differential price movements call for the recognition of such gains and losses in total, and not merely of their realized component. The former would be proportionate to the total value of the assets affected by the differential price change; only the latter would be registered by the general-price-index correction of depreciation quotas with which Fabricant's proposal deals.

On the Goldsmith Paper

I am in substantial agreement with Raymond W. Goldsmith in his recommendations on saving statistics. I have only a few comments.

SEGREGATION OF ENTREPRENEURIAL SAVING

I should like to know which of two variants he has in mind in calling for a segregation of the saving of unincorporated enterprise. Does he refer to total saving by entrepreneurial families, without attempting to separate their saving *qua* entrepreneurs from their saving *qua* consumers; or is he thinking only of the former component? Given the present nature of unincorporated enterprise, I think we should attempt to estimate the global total only.

If the problem were to segregate the saving which entrepreneurs do in their business capacities, little further statistical information would be required, since the split would be based on arbitrary conventions in the absence of any objective difference that might be reflected in basic data. However, if the analytical goal is to segregate the total saving of entrepreneurial families, suggestions for work toward it must focus sharply on the nature of the data and methods which are in sight. I doubt that the saving of entrepreneurial families should be estimated via a differencing of incomes and expenditures. To estimate their personal consumption expenditures on a reasonably current basis, so that saving might be derived as residual, would be impossible at the present time and in the foreseeable future. An approach relying heavily on the sampling of the balance sheet data from financial intermediaries, such as Irwin Friend has suggested, may perhaps have somewhat better prospects of success; but here also the statistical difficulties are rather overwhelming.

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SECTOR SAVING—INVESTMENT ACCOUNTS

Goldsmith asks the reasons for the delay in the preparation of sector saving-investment accounts and expresses the opinion that the lack of government saving and investment figures comparable in definition to the personal and corporate figures is the only serious obstacle. To me the situation appears somewhat different. Useful sector saving-investment accounts, including one for the government, could be prepared even without the calculation of government capital formation and depreciation, just as they can be prepared for the personal sector without the calculation of capital formation in the form of consumer durables; and differences in the manner in which the various sector savings are defined need not hold up the preparation of sector saving-investment accounts.

But quite apart from the calculation of a definitionally comparable government saving figure, the preparation of sector saving-investment accounts is a substantial task. It is quite true that the Securities and Exchange Commission-Commerce estimate of personal saving, the Office of Business Economics estimates of sources and uses of corporate funds, and the OBE balance of payments on capital account provide the basis for some of the sector accounts; that other bodies of data (such as the debt statistics of the National Income Division, worksheet material underlying the SEC saving estimates, and the money flow work of the Board of Governors of the Federal Reserve System) provide further ingredients in at least semiprocessed form; and that to fill the remaining major gaps reasonably adequate primary data are available. But a great deal of detailed work is involved in the integration of this material into a set of interlocking saving-investment accounts consistent with the national income and product accounts.

QUARTERLY PERSONAL SAVING DATA

I agree with Goldsmith that it would be desirable to have quarterly personal saving figures which fully reflect seasonal variations. However, I want to stress the difficulty of obtaining such figures, especially for unincorporated enterprise, in the absence of further primary statistical information. I have some doubt whether for agriculture a truly unadjusted quarterly figure could ever be produced. I explore the problem of obtaining seasonally unadjusted data further in connection with Moore's paper.

PART VIII

