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Chapter 6

The Secondary Distribution and Moneyflows

The distribution which accompanies production is not the sole distributive process. . . . Many individual incomes are derived immediately from the public treasury by pension, or grant, or sinecure . . . there are costs in business other than the four cost categories with which economic analysis is familiar — wages, profits, rents, and time discounts. In addition there are taxes, and advertising, and royalty outlays, and ordinary insurance premiums. . . . Much of the product of society — possibly one-half or two-thirds of it — reaches its final recipients by gift. H. J. Davenport, *The Economics of Enterprise* (Macmillan, 1919), pp. 138, 398, and 494.

In the two preceding chapters we have considered eight types of transaction. Household receipts from four of these are distributive shares. Household expenditures on five are, subject to one very minor qualification, purchases of gross national product.

Six of the fourteen broad classes of moneyflows transactions that will be here distinguished remain to be considered. One of them is lending and borrowing and other flows through financial channels. The general nature of the other five is indicated in the above quotation, although we shall not think of gifts quite as broadly as did Davenport. These five constitute the principal subject of this chapter: taxes collected, tax refunds, insurance premiums, insurance benefits, and what we shall call public purpose payments. The status of each of these moneyflows in economic theory has been somewhat anomalous; and the proper treatment of each in national income and product accounting has been a subject of debate. But all are clearly sources of money to the recipients and dispositions of money by the other parties to the transactions.

1 *Taxes and Tax Refunds*

The distinction between direct and indirect taxes is an old one; most of the developments in social accounting are relatively recent. Nonetheless it seems clear that this twofold classification of taxes belongs to the national income and product perspective and not to the moneyflows perspective. Essentially it divides taxes into those paid by the ultimate and those paid by the intermediate sector. This distinction was widely taken as a fundamental assumption in theories designed to trace the incidence of taxation. The incidence of taxes paid directly by the ultimate sector was commonly thought obvious; they could not be passed on. And in the formerly prevailing Anglo-American view of the national income account indirect taxes were considered to be like the cost of merchandise purchased for resale; they either enhanced the price of final products or came out of ultimate distributive shares.

Even on this view the incidence of taxation seemed a complicated affair; it seems more so today. In the present GNP perspective the distinction by paying sector is retained;[1] but indirect taxes take on the attributes of a distributive share — they are final sources of funds to the ultimate sector — and direct taxes become a kind of transfer payment from one ultimate transactor to another.[2] In the moneyflows perspective all tax paying sectors (lines D through L in Table 12) are on a par. None of them is ultimate, and for each of them, even households, changes in this type of outflow are bound to have repercussions on other items in the sector moneyflows account. And these repercussions may have re-repercussions, and so *ad infinitum*. Such incidence, of course, is not a peculiarity of taxes; other types of transaction have repercussions, too. In Chapter 1 we spoke of tracing impacts through the money circuit. Tax incidence is one form of impact.

In the national cash interest account we found some flows that are final product expenditures, some that are transfer payments, and some that are distributive shares. A similar situation prevails with Table 12. Real property taxes paid by households we class as GNP expenditures.[3] All other household taxes are transfer payments. And very roughly we may think of the taxes paid by all the other sectors as indirect for purposes of the GNP account, meaning that they are final sources of funds to the parts of governments that are parts of the ultimate sector.

This suggests that in the moneyflows perspective Table 12, line M minus line D, corresponds to the sum of three Department of Commerce items in the GNP perspective: indirect business tax and nontax liability plus corporate profits tax liability plus private employer contributions for social insurance. But we must not expect these two totals to agree closely. One reason is that there is a difference in timing between Table 12 and the GNP account; another involves Table 13.[4]

[1] The dividing line is differently drawn, however.

[2] In the former view referred to above they were final product purchases from government considered as a productive enterprise.

[3] Because they are in effect a component of the imputed rental value of owner occupied dwellings, and because this imputed value is a GNP expenditure in the Department of Commerce social accounts.

[4] There are two other reasons, also.

Third, to line M minus line D we should add real property taxes paid by house-

TABLE 12 THE NATIONAL TAXES

(Millions of

		1936	1937	1938
	RECEIPTS			
A	The Federal Government	4,200	6,120	5,840
B	State and Local Governments	6,800	7,600	8,200
C	All Transactors	11,000	13,700	14,000
	EXPENDITURES			
D	Households	2,600	3,700	3,500
E	Farms	460	480	480
F	Industrial Corporations	5,000	6,100	6,400
G	Business Proprietors and Partnerships et al	1,500	1,700	1,800
H	Banks and U. S. Monetary Funds	100	120	120
J	Life Insurance Companies	100	130	110
K	Other Insurance Carriers	70	90	110
L	Security and Realty Firms et al	1,300	1,400	1,400
M	All Transactors	11,000	13,700	14,000

TABLE 13 THE NATIONAL TAX

(Millions of

		1936	1937	1938
	RECEIPTS			
N	Households	10	20	20
P	Industrial Corporations	20	30	30
Q	Business Proprietors and Partnerships et al	10	10	10
R	All Transactors	50	60	70
	EXPENDITURES			
S	The Federal Government	50	60	70
T	All Transactors	50	60	70

TABLE 14 THE NATIONAL PUBLIC

(Millions of

		1936	1937	1938
	RECEIPTS			
U	Households	3,460	1,320	1,480
V	Farms	290	370	480
W	Industrial Corporations	0	10	20
X	Business Proprietors and Partnerships et al	1,000	1,100	1,000
Y	The Federal Government	80	560	840
Z	State and Local Governments	1,800	2,040	2,200
	The Rest of the World:			
a	Personal and Institutional Remittances	200	200	190
b	Aid to China	0	0	0
c	All Transactors	6,800	5,600	6,200
	EXPENDITURES			
d	Households	1,170	1,290	1,170
e	Industrial Corporations	30	30	20
f	Business Proprietors and Partnerships et al	40	60	60
	The Federal Government:			
g	Public Assistance	120	220	250
h	Veterans' Bonus and Pensions	2,740	440	420
i	Farm Benefits	290	370	480
j	Other Cash Subsidies	0	10	20
k	Grants-in-Aid to State and Local Governments	480	600	600
	State and Local Governments:			
m	Public Assistance	560	620	760
n	Payments into Unemployment Compensation Funds	60	560	820
p	Other Intergovernmental Transfers	1,300	1,400	1,580
q	Banks and U. S. Monetary Funds	1/	1/	1/
r	Security and Realty Firms et al	10	1/	10
s	The Rest of the World (Personal Remittances)	20	20	40
t	All Transactors	6,800	5,600	6,200

1/Less than $5 million.
2/Includes $200 million aid to China as on line b.

COLLECTED ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
5,300	6,180	9,120	17,120	P&B-V-D	A
8,400	8,900	9,400	9,900	P&B-VI-E	B
13,700	15,100	18,500	27,000	A + B	C
3,200	3,500	4,200	7,100	P&B-I-V	D
480	480	480	500	P&B-II-N	E
6,500	7,200	9,400	14,700	P&B-III-U	F
1,900	2,200	2,500	2,600	P&B-IV-T	G
160	140	160	180	P&B-VII-Q	H
130	120	120	170	P&B-VIII-S	J
110	90	90	130	P&B-IX-Q	K
1,300	1,500	1,500	1,600	P&B-X-U	L
13,700	15,100	18,500	27,000	D thru L	M

REFUNDS ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
20	30	30	30	P&B-I-G	N
40	50	40	50	P&B-III-F	P
10	20	20	20	P&B-IV-F	Q
80	90	90	100	N + P + Q	R
80	90	90	100	P&B-V-R	S
80	90	90	100	S above	T

PURPOSE PAYMENTS ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
1,560	1,620	1,600	1,560	P&B-I-L	U
810	770	590	700	P&B-II-D	V
40	70	70	90	P&B-III-H	W
1,000	1,100	1,100	1,400	P&B-IV-H	X
840	860	1,020	1,160	P&B-V-F	Y
2,380	2,320	2,220	2,020	P&B-VI-G + H + J	Z
180	240	220	170	P&B-XI-G + H	a
0	0	0	200	P&B-XI-F	b
6,800	7,000	6,800	7,200	U thru b	c
1,130	1,270	1,210	1,400	P&B-I-X thru Z	d
30	30	50	90	P&B-III-W	e
60	80	100	80	P&B-IV-V	f
280	330	380	390	P&B-V-T	g
440	440	440	440	P&B-V-U	h
810	770	590	700	P&B-V-V	i
40	130	170	190	P&B-V-W	j
740	560	460	640 2/	P&B-V-X	k
800	720	620	580	P&B-VI-V	m
840	860	1,000	1,140	P&B-VI-W	n
1,600	1,740	1,740	1,560	P&B-VI-X	p
1/	1/	1/	1/	P&B-VII-S	q
1/	10	10	10	P&B-X-X	r
40	60	40	40	P&B-XI-T	s
6,800	7,000	6,800	7,200	d thru s	t

Note: Due to rounding columns may not precisely downtotal.

The difference in timing is that Table 12 is on a cash basis, i.e., it reports tax collections, while the GNP account currently reckons most business taxes on an accrual basis. This difference is particularly important in the reporting of the corporate income tax.

In the case of taxes, as in the cases of customer moneyflows and instalments to contractors, uniformity in timing of transactions has been achieved in the moneyflows accounts by bringing the information for paying transactors into agreement with the prevailing practice in the financial statements of the recipients. For our present purpose it seems clearly desirable to report this type of moneyflow on a cash basis, although tax expenditures by business are ordinarily shown on business financial statements as accruals.[5]

Since a cash basis has been employed in Table 12, it is obviously advisable in the national tax refunds accounts, Table 13. A second respect in which the moneyflows perspective and the GNP perspective treat taxes differently is that in the latter tax accruals are reckoned net of refunds.

2 *Other Ordinary Transactions*

Public purpose payments (Table 14) include a variety of transactions in which there is no *quid pro quo*. Payments by government include veterans' pensions and bonuses (and would more recently include cash payments to ex-service personnel under the G. I. Bill of Rights), public assistance, cash subsidies, and grants-in-aid. Among public purpose payments made by private parties are charitable contributions, private assistance, endowment gifts, and international personal remittances. Logically we should have included also in Table 14 the money that passes from one household to another by gift, bet or bequest. But the

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holds for purposes of a better comparison. These taxes enter into both sides of the GNP account in somewhat the way wages and salaries paid by households do. As a component of imputed rent they are a GNP expenditure. But they are also regarded as indirect taxes and as such they are a source of funds to the ultimate sector.

Fourth, from the Department of Commerce item we should eliminate various nontax components: service charges (Panama Canal tolls, local water rates, etc.) and service fees (of public hospitals, educational institutions, etc.). In our accounts these are classified as customer moneyflows. But special assessments, fines, and nonservice government fees are included in Table 12.

[5] If we were able to follow and elected to follow undeviatingly the rule that transactions are to be timed as on the recipients' books, no discrepancies could be caused in the moneyflows accounts by deviations from this sort of accounting uniformity. In Tables 4 through 12 and 15 we have either aimed to follow this rule, or been compelled to follow it because recipients were our primary sources of information. But to Tables 13, 14, and 16 we had to apply a different uniform rule because the paying transactors were our primary sources of information. And when we come to financial flows we shall find it wise to allow some deviation from this type of uniformity.

basis for estimating this type of moneyflow is unsatisfactory. We doubt that its omission will materially affect our conclusions.

Properly speaking all public purpose payments are transfer items, not product transactions. Although they are therefore not distributive shares (not part of national income), those received by households are reasonably counted as a part of personal income, and most of them are so counted currently. Logically no public purpose payment should be counted as a GNP expenditure but in the case of international transfers the Department of Commerce has adopted a short cut. Instead of treating government grants and personal remittances abroad as transfers and the purchases they finance as GNP expenditures by the rest of the world, the Department treats the transfers as GNP expenditures (by government and households respectively).

We may observe first with regard to insurance premiums (Table 15) that we have carried out the procedure outlined in Chapter 4. A premium collected by an insurance agent may be offset against his commission. But such premiums are included in the receipts by private carriers (Table 15, lines C and D) and in the expenditures by households and other transactors (lines F through N). And the commissions are components of receipts from customers (Table 8, line J) and of expenditures by carriers as customers (lines U and V).

But this is not the end of the offset problem in the national insurance premiums accounts. Dividends to policyholders may be offset against premiums. In the case of life insurance companies dividends so applied are a substantial item. Since they amount to a form of discount to the life insurance premium payer they are not really a moneyflow, and do not appear in Table 15. Line C is net of dividends so applied, and line L reports dividends actually withdrawn. A corresponding adjustment for lines D and M did not seem feasible. The separate reporting of dividends to policyholders on lines L and M creates a problem in Table 15, which in the interest of simplicity we have elected to solve not by setting up a separate moneyflows account for the dividends but by adopting a compromise between netting and grossing. The receipts of premiums by private insurance carriers are shown in Table 15 on a gross basis. On the expenditure side of the account we show two items (lines L and M) that are to be regarded as deductions from these receipts rather than as expenditures, for the premium payments made by the various transactor groups are reported net of these dividends.[6] A very large proportion of the dividends goes to households.

[6] Any reader who objects to this netting of expenditures can combine lines L and M

TABLE 15 THE NATIONAL INSURANCE

(Not including Social Insurance

		1936	1937	1938
	RECEIPTS			
A	The Federal Government	140	140	140
B	State and Local Governments 1/	160	180	190
C	Life Insurance Companies 1/	3,520	3,620	3,660
D	Other Insurance Carriers 1/	2,400	2,600	2,500
E	All Transactors	6,200	6,500	6,500
	EXPENDITURES			
F	Households	4,200	4,300	4,300
G	Farms	80	90	90
H	Industrial Corporations	940	1,020	1,000
J	Business Proprietors and Partnerships et al	420	460	440
K	Banks and U. S. Monetary Funds	80	80	80
L	Life Insurance Companies, Dividends withdrawn by Policyholders 2/	160	160	160
M	Other Insurance Carriers, Dividends Paid to Policyholders	50	70	70
N	Security and Realty Firms et al	340	360	340
P	All Transactors	6,200	6,500	6,500

TABLE 16 THE NATIONAL INSURANCE

(Millions of

		1936	1937	1938
	RECEIPTS			
Q	Households	2,780	2,940	3,540
R	Farms	40	40	40
S	Industrial Corporations	200	210	220
T	Business Proprietors and Partnerships et al	120	140	140
U	Banks and U. S. Monetary Funds	10	10	10
V	Security and Realty Firms et al	140	160	160
W	All Transactors	3,300	3,500	4,100
	EXPENDITURES			
X	The Federal Government	90	130	610
Y	State and Local Governments	200	220	240
Z	Life Insurance Companies	1,940	1,960	2,060
a	Other Insurance Carriers	1,100	1,100	1,200
b	All Transactors	3,300	3,500	4,100

1/In the case of a private insurance company that maintains a self-administered pension plan, the pension fund and the company are treated as a single transactor. Contributions by employers (insurance companies) to such funds are included neither in premium receipts (lines C and D) nor premium payments (lines L and M). Self-administered pension plans of other private enterprises are treated as separate transactors and classified with other insurance carriers.

PREMIUMS ACCOUNT

Payroll Taxes — Millions of Dollars)

1939	1940	1941	1942	Source	
160	180	240	760	P&B-V-E	A
180	190	210	220	P&B-VI-F	B
3,640	3,760	3,960	4,080	P&B-VIII-E + F	C
2,600	2,900	3,300	3,400	P&B-IX-E	D
6,600	7,000	7,700	8,500	A thru D	E
4,300	4,600	4,900	5,200	P&B-I-W	F
100	110	110	140	P&B-II-P	G
1,060	1,140	1,320	1,720	P&B-III-V	H
440	520	600	640	P&B-IV-U	J
90	100	110	120	P&B-VII-R	K
120	120	140	100	P&B-VIII-N	L
70	70	70	80	P&B-IX-R	M
380	400	460	500	P&B-X-V	N
6,600	7,000	7,700	8,500	F thru N	P

BENEFITS ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
3,720	3,880	3,780	3,900	P&B-I-H + J + K	Q
60	60	60	80	P&B-II-C	R
260	240	280	330	P&B-III-G	S
140	160	180	200	P&B-IV-G	T
30	20	10	10	P&B-VII-E	U
140	180	200	220	P&B-X-H	V
4,300	4,500	4,500	4,700	Q thru V	W
720	870	740	840	P&B-V-S	X
220	240	260	280	P&B-VI-U	Y
2,160	2,180	2,030	2,000	P&B-VIII-T + U	Z
1,200	1,300	1,400	1,600	P&B-IX-S	a
4,300	4,500	4,500	4,700	X thru a	b

2/Includes withdrawals of interest accrued on dividends left on deposit.

Note: Due to rounding columns may not precisely downtotal.

There is still another offset problem in connection with Table 15. In Chapter 4 we noted that the national gross cash pay account includes pay withheld for taxes. Of course we included such withholdings — both for income taxes and for employee payroll taxes — as tax expenditures by households in Table 12. An item somewhat like employee payroll tax withholdings affects Table 15: Pay withholdings for premium payments into retirement funds. These are included in premium payments by households, line F, and in the premium receipts on lines A through D.

The premium receipts of the Federal government represent more than such withholdings from the pay of civilian employees and life insurance premiums from military service and ex-service personnel. They include the assessments levied by the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation on insured banks and loan associations respectively. They include also the premium receipts of the Federal Housing Administration and the Federal Crop Insurance Corporation. It can be argued that these last are receipts in kind, since the amount of the premium is stipulated in bushels or bales in the insurance contract. But it is understood that settlements of accounts between farmers and the Corporation 'are usually made in the cash equivalent'.[7]

In Chapter 2 we stated that we proposed to define the main money circuit operationally in terms of specifications for the system of moneyflows accounts. By this time it should be clear what this means. We can characterize the money circuit broadly and in general terms. But such a characterization is hardly a definition. When we try to be precise we have to give specifications and to do this we have repeatedly to face a problem of picking an endpoint between more so and less so in a series that has some of the attributes of a mathematical continuum. In picking such an endpoint we have been able to lean sometimes on the law, as in distinguishing personal and nonpersonal holding companies; sometimes on the national income and product accounts, as in distinguishing household from farm expenditures on passenger autos. But we have had to make various marginal assignments with less in the way of precedents. We cited Mill in support of our handling of three cornered offset settle-

with line F and he will not be far off. Of course he will have as a corollary to set up a separate national dividends to policyholders account showing lines L and M as they appear here and substantially all of L plus M as household receipts.

[7] November 1948 *Agricultural Finance Review* 128. In addition to the items listed above there were during the war special war risk insurance premiums received by the Reconstruction Finance Corporation and the War Shipping Administration.

ments and of the timing of book credit purchases; it would be easy to cite various authorities against the decisions we made on these two points. In our compromise treatment of dividends to policyholders we are largely on our own.

These are not all the marginal cases we have had to decide to date. Still less are they all we have to decide to define the money circuit. One of those that remains concerns Table 15 and the classification of transactors. A pension fund maintained by a government or a life insurance company and the government or insurance company we treat as a single transactor. Hence we shall think of the moneyflows of such a fund and the other moneyflows of the government or life insurance company in a single consolidated account. But the self-administered pension plans of all other employers we treat as separate transactors; they are classified in the transactor group other insurance carriers. In the case of the moneyflows of an industrial corporation that maintains a pension fund we shall assume that there are two separate accounts: One (the main account) is a component of the combined moneyflows account for all industrial corporations; the other (for its pension fund) is a component of the combined moneyflows account for other insurance carriers. Hence, contributions by private employers other than insurance carriers to the pension funds they maintain appear in Table 15 as premiums paid by the employers and as premium receipts of other insurance carriers. But similar contributions by governments and life insurance companies to pension funds maintained for their employees do not appear in Table 15. Since each such fund is considered a part of the employer maintaining it — not a separate transactor — no moneyflow between transactors is involved; such a contribution is an internal, not a moneyflows, transaction. This marginal decision means that line D of Table 15 includes for the self-administered pension plans of private transactors other than insurance carriers both their own contributions to these funds and the deductions they make from payrolls on this account. Most of the contributions are a component of line H; all of the deductions a component of line F.

In favor of this marginal decision it is to be said that the operations of a pension fund are as different from the operations typical of an industrial corporation — or of a bank or a holding company for that matter — as are the operations of a doctor in his professional capacity from those of his household. And the operations of a self-administered pension fund are essentially those of an insurance carrier. Opposed to this decision is the fact that the financial statements of most industrial corporations imperfectly segregate these two diverse kinds of operations. As with doctors and their households we must, to effectuate the decision, go in for a kind of statistical, accounting vivisection. But the vivisection problem here is a smaller one.[8]

All employer contributions to pension funds, public and private, appear currently in the national income (and hence the GNP) account as distributive shares. They are income for households in an accrual sense, but they are not household receipts.[9] To visualize the relations between Table 15 and the GNP account it will be well to note that the transactor who pays the premium is not always the beneficiary, and to distinguish three types of premium accordingly:

1) Those in which the payer is a nonhousehold and the beneficiary a household.
2) Those in which both the payer and the beneficiary are households (Table 15, line F, for households are always beneficiaries in the case of the premiums they pay).
3) Those in which both the payer and the beneficiary are nonhouseholds.

As we have indicated, premiums of type (1) (including premiums not covered in Table 15 because they are not moneyflows and including employer payroll taxes) are regarded as distributive shares for purposes of the GNP account. Most of the type (2) premiums paid to private carriers are for life insurance. These are considered by the national income accountant to consist of three parts: (a) a part equal to the current benefits on such policies; these premiums and benefits are regarded as transfer payments from one household to another, i.e., transactions that cancel in the consolidation process, (b) household savings (increases in insurance reserves), and (c) household purchases of gross national product (carrier operating costs). The third part is a relatively small item in total household purchases of gross national product; the second part is important in connection with life insurance and pension policies, and is a substantial item in household savings as reckoned on

[8] It is confined to two accounts. One of them is a loanfund account, loans and securities held. The other account we have already taken up, the national cash interest account. In the latter this vivisection problem involves the correctness of our handling of the interest receipts of industrial corporations and their pension funds (lines T and Z in Table 7). Because the amounts involved are small, we have not attempted anything but a rough allocation either here or between the loans and securities accounts of these two sectors.

[9] These statements apply both to the premium payments in Table 15 and to the employer payroll taxes in Table 13. Both employer and employee contributions to such funds are excluded from the current Department of Commerce concept of personal income.

an accrual basis. For purposes of national income and product accounting, type (3) premiums also are currently subjected to a cost accounting split, in this case a two way one. A part of type (3) premiums equal to the fire insurance and other benefits that are available to finance replacements of plant and equipment is treated as a capital consumption allowance of the same general nature as a depreciation charge. The remainder is regarded as a class of intrasector transactions that do not appear in the consolidated statement for the intermediate sector. In Table 15 we attempt neither of these splits, but we shall have to lean on the type (2) split in Chapter 9 in correlating the moneyflows and GNP perspectives.

What has been said about insurance premiums has corollaries for insurance benefits (Table 16). Any fund that receives premiums paid by or on behalf of beneficiaries is assumed to be an underwriter of the policies on which such premiums apply, and therefore appears in Table 16 as paying corresponding insurance benefits. Benefits on government life insurance policies and crop insurance benefits are components of line X, so are expenses incurred by the FDIC and FSLIC in connection with closed banks and loan associations, and by the FHA in connection with defaults on insured mortgages. Table 16 includes also benefits paid from government funds that receive payroll taxes, and from employees' pension funds maintained by governments and life insurance companies even though the employer contributions to these funds are not regarded as moneyflows.

None of the accounts considered in this chapter shows a discrepancy. The national tax account, Table 12, balances perfectly, because total receipts were analyzed into twenty-odd categories by type of tax and each component was then apportioned against the various paying transactors. An analogous procedure was carried out with insurance premiums. In the cases of tax refunds and insurance benefits the analogy was followed in reverse. Components of the expenditure total were apportioned among recipients. As for public purpose payments the detail was sufficient so that the problem of apportionment was negligible. Thus all farm benefits paid by government are receipts by farms; all public assistance is a receipt by households, etc.

We shall refer collectively to the thirteen types of transaction we have considered in this and the two preceding chapters (Tables 4 through 16) as ordinary transactions. Ordinary transactions include all moneyflows in the main money circuit except financial flows, money obtained through financing and money advanced to finance other transactors or borrowed money returned to others.

3 *The Moneyflows Account*

It will be convenient at this point to anticipate the fourteenth national type of transaction account which covers these financial flows. From the other thirteen national accounts and this one we can pick out all the items that represent money inflows or money outflows for any one transactor group and so construct a moneyflows account for that transactor group. Let us take households again as an illustration. Table 17 recapitulates what Tables 4 through 16 have told us about household moneyflows in 1939. It indicates also that during 1939 households advanced or returned $.3 billion through financial channels to other transactors.

For some purposes the net financial flow may be looked upon as the balancing item in the moneyflows account of any transactor group: When the total ordinary receipts of a sector exceed its total ordinary expenditures, its moneyflows account may be said to be balanced by the money it advances to finance other transactors (or the borrowed money it returns to them); and when its ordinary expenditures exceed its ordinary receipts the account may be thought of as balanced by obtaining money through financing. Among the subjects with which we shall be concerned in the next two chapters are the processes by which money is

Table 17

Statement of Moneyflows for Households in 1939
(Billions of Dollars)

	TYPE OF TRANSACTION	Ordinary Receipts and Other Sources of Money (1)	Ordinary Expenditures and Other Dispositions of Money (2)
A	Gross Cash Pay	45.1	.9
B	Cash Interest	2.7	1.3
C	Cash Dividends	3.8	.0
D	Net Owner Takeouts	9.3	.0
E	Instalments to Contractors	.0	1.0
F	Customer Moneyflows	.1	51.2
G	Gross Rents	.0	3.9
H	Net Payments for Real Estate Transfers	.6	.0
J	Taxes Collected	.0	3.2
K	Tax Refunds	*	.0
L	Insurance Benefits	3.7	.0
M	Insurance Premiums	.0	4.3
N	Public Purpose Payments	1.6	1.1
P	Total Ordinary Transactions	66.9	67.0
Q	Net Money Obtained or Advanced or Returned	.0	.3
	Total Main Money Circuit Transactions	67.3	67.3

Chiefly because of rounding, figures may not precisely downtotal.
The household moneyflows account shows a discrepancy of about $400 million in 1939. Hence the total in column 1, line R, is larger than in column 1, line P.
*Less than $50 million.

obtained through financing or advanced or returned to other transactors.

The financial statement illustrated in Table 17 is a kind of sources and uses of funds statement. However, it differs from most statements of this kind in being on a somewhat grosser basis. We have avoided the netting of ordinary receipts and expenditures against each other except in Tables 5 and 11.[10] Table 17 differs from the usual form of sources and uses statement also in that it is so devised — partly by a moneyflows timing of transactions — as to avoid accrual items. Further it differs from the conventional sources and uses form of statement in adhering strictly to what is technically called an object classification of accounts — a classification of moneyflows by type of transaction. To emphasize these differences we shall usually say sources of money rather than sources of funds, and dispositions of money rather than uses or applications of funds.

The object or type of transaction classification of sector accounts, has a great advantage for purposes of a system of social accounts. Indeed it may be said to have made Tables 4 through 16 possible. When we have this form of classification and look at the moneyflows statements for various sectors of the economy, what appears as a source of money for one sector will appear under the same heading (type of transaction) as a disposition of money by some other transactor, and conversely. Obtaining money through financing is one object source of money, and advancing or returning money to other transactors is the same object disposition of money. In considering these financing operations in Chapters 7 and 8 we shall find it helpful to keep in mind that what is a financial source of money for one transactor is a financial disposition of money by another.

Table 17 is a comprehensive statement of the household moneyflows. We contend it includes all such flows that are significant for over-all economic adjustments. It omits technical transactions. But since these omissions are accomplished by a netting process — chiefly by deducting all money obtained through financing from the gross amount of money advanced or returned to others — the balance of the household moneyflows account is not disturbed. When we come to examine the discrepancies in the moneyflows accounts for all the sectors and for various years, we shall gain some assurance about the comprehensiveness of the moneyflows accounts, and therefore about our definition of the main money circuit, for only through netting could there be omissions from a balancing set of accounts for all sectors.

[10] To be precise we should add, and except for our compromise handling of dividends to insurance policyholders in Table 15.

We have characterized the basis on which Table 17 reports transactions as a moneyflows basis; it is to all intents and purposes a cash basis for eleven of the thirteen types of ordinary transactions, and it is a cash and book credit basis for the other two, customer moneyflows and instalments to contractors. Nonetheless, as we shall find in Chapter 10, the moneyflows account is not what accountants call a cash account. Some of the differences between a moneyflows account and a cash account we have already noted: the omission of technical transactions, the inclusion of transactions settled by offset, and the timing of the entries of book credit transactions in the account. We now add a further difference. Table 17 represents Part One of what we shall call the statement of payments and balances for households — the full sources and uses statement. Part Two deals with cash balances and other balances related to cash. What is technically called a cash account records the opening and closing balance of cash; but there is no place in it for the related balances. As we shall see, both cash on hand and related balances are integral parts of a statement of payments and balances.