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REPORT ON TRIPARTITE DISCUSSIONS OF NATIONAL INCOME MEASUREMENT

EDWARD F. DENISON

IN SEPTEMBER 1944 representatives of the agencies preparing the official estimates of national income for the United Kingdom, Canada, and the United States met in Washington to exchange views on the more difficult problems of national income estimation and, if possible, to bring about uniformity in terminology and in the treatment of controversial items. The meetings were attended by Richard Stone of the United Kingdom Central Statistical Office, the late George Luxton of the Dominion Bureau of Statistics, and Milton Gilbert, Ernest Doblin, George Jaszi, Charles F. Schwartz, William H. Shaw, Dwight B. Yntema, and myself of the National Income Unit of the United States Department of Commerce.

The discussions were stimulating and led, partly through persuasion, partly through compromise, to substantial agreement on most of the principal matters at issue. Steps have been initiated in each country to implement these decisions by adjusting the published estimates. Uniformity in definition among these three major countries should greatly simplify the problems of the users of national income statistics. It is hoped that other countries may follow the treatment agreed upon.

It was originally intended that Messrs. Stone and Gilbert should prepare a joint paper describing the agreements and their underlying rationale, which, after submission to Mr. Luxton for comment, would be published. Pressure of other work and geographical distance prevented preparation of this joint report, and Mr. Gilbert's trip to Japan forestalled his preparation of an individual report. Since the Department of Commerce proposed to issue revised estimates of national income embodying these decisions within six months, however, it seemed imperative to place them before the autumn 1945 meeting of the Income Conference, and I agreed on short notice to prepare this statement. It will be evident to the reader that this report is intended as a description of the decisions reached at the Washington meetings rather than a well-rounded discussion of national income concepts. Moreover, it was prepared from inadequate notes nearly a year after the Washington meetings. Doubtless other participants would not agree with all my interpretations of the decisions. In any event, nothing in this statement should be construed as binding on any of the three statistical agencies concerned.

1 Fundamental Purpose of National Income Statistics

In the view of the conferees, the fundamental purpose of assembling the body of data usually termed, rather loosely, 'national income statistics', is to present a set of accounts that portray in summary form transactions in the national economy and facilitate analysis of its structure and development. These social accounts should be a summary of the accounts of businesses, individuals, and government as they exist in actual practice, except that adjustments must be made for differences in accounting procedure, for the failure of actual accounts to reflect real decisions, and for the inadequacy or utter lack of actual accounts for a fraction of the economy.

This approach to national income statistics perhaps tends to minimize the importance to be attached to any single series, such as national income, and to emphasize the interrelations among various sectors of the economy and among different types of transaction. It may be contrasted in particular to the welfare approach to national income measurement, which seeks to obtain a unique series, fluctuations in which may be accepted as a measure of changes in economic welfare. The proposals, however, do not suggest the elimination of any data analysts may consider useful in the measurement of economic welfare.

It is recognized, furthermore, that certain aggregates appearing in the accounts, such as national income, income payments to individuals, and gross national product, have great analytical significance in themselves. Indeed, the greater part of the sessions was devoted to the discussion of their exact content. At the same time, recognition that the composition of any such series must involve dubious if not arbitrary decisions and that any adequate set of accounts must be sufficiently detailed to allow the consumer of the statistics to make such reasonable adjustments as he may believe appropriate eased the compromise of differences.

2 Setting Out the Accounts

It was agreed that six or seven basic accounts, or sets of tables, would meet at least the more pressing needs for national income statistics.

A gross national product and national income account — to show the value of the gross national product and its composition, by type of product, in as much detail as the source material permits, together with the items necessary to pass from gross national product to net national product and to national income. National income earned in production will also be presented in as much detail as possible by type of income and by industry. Supplementary data to be compiled include the number of persons engaged in production.

An income and expenditure account for individuals — to show at least income payments to individuals and their disposition among personal taxes, consumption expenditures, and savings. Ideally, these items would be presented also by income size classes and by whatever geographic division is appropriate to the country. In the United States income payments are currently available by states and it is expected that estimates of disposable income (income payments minus personal taxes) will in time become available by states.

A consolidated profit and loss account for private industry — to show, for private industry, the consolidated value of production divided at least among sales to individuals, to government, and abroad, and inventory change; and the factor costs, indirect taxes, and capital consumption incurred in this production. A rudimentary form of this account, such as was given in the *Survey of Current Business*, April 1944, Table 4 of the article on national income, can be derived from the published American data but not at present from the British.

A government account — to contain government receipts and expenditures in some detail. In the expenditure series government expenditure for goods and services will, of course, be separate from transfer payments. The desirability and feasibility of dividing the government accounts between a capital and a current account was discussed at length but no agreement was reached. Lack of agreement on this fundamental is responsible for nearly all the remaining differences between the proposed methods of measuring national income and national product in the three countries concerned. No such division is planned in the United States statistics.

To the extent possible, government expenditures should be classified by type of service performed and by type of expenditure with respect to the durability of the article. This would make possible the addition of government expenditures to private expenditures by category.

A savings account — to show the sources and disposition of gross savings. Variants of such tables have been presented regularly in the British White Papers, and for the United States in the *Survey of Current Business*, April 1944. 'Individual' savings should be divided among savings of nonprofit organizations, life insurance companies, other institutions, and real individuals including unincorporated enterprises. There was disagreement about the feasibility, both conceptual and statistical, of dividing the savings of proprietors between 'business' and 'personal' savings; the Department of Commerce, which formerly attempted it, was definitely opposed to this division. Total savings of proprietors could be distinguished conceptually from savings of other individuals, though it would be difficult statistically. Such a split might help to meet the analytical needs for which the 'business' savings figure is desired.

A foreign account — in essence similar to the International Balance of Payments now prepared by the Department of Commerce, though certain changes may be desirable. This account was not given much attention at the meetings.

An account for financial institutions — considered desirable by Mr. Stone. As its nature and necessity are not clear to me, and the Department of Commerce does not plan its inclusion, I shall not attempt to discuss it.

Mr. Stone, while satisfied with this system of social accounts as an immediate goal, envisages a much more elaborate system as a final desideratum. He is preparing a manuscript presenting his views in full for publication by the League of Nations Committee of Statistical Experts.

I think it will be clear that preparation of the set of national accounts just described is no sudden innovation, but rather is a refinement and formalization of the sorts of tables found most useful in economic analysis and developed experimentally in Britain and the United States in the past few years. The war, in particular, has brought home to economists and government policy makers generally the value of a complete national budget as a most important tool in the formulation of national policy. Business has evinced much interest in such accounts in mapping plans for the postwar period now upon us.

3 Definitions of the Chief Series

The remainder of this report is concerned primarily with the first account, but some attention is devoted also to the second. The decisions reached on specific items, of course, have implications for the other accounts, whose content was not developed in detail at the Washington meetings.

The five principal aggregate series are defined as follows:

Income payments to individuals measures current income *received* from enterprises and government by individuals and quasi-individuals resident in, or temporarily absent from, the country.

Private income before taxes equals income payments to individuals plus savings of corporations measured before deduction of taxes on income.

National income measures the earnings accruing to residents for the participation in production of the factors of production they supply. 'Residents' include persons temporarily abroad. National income may be viewed also as a measure of the value of goods and services produced by the economy valued at factor cost. National income is equal to income payments to individuals, minus government and business transfer payments, plus income accruing to governments, minus income paid but not accruing to individuals during the period, and plus income accruing but not paid to individuals during the period.

Net national product measures the value of goods and services produced in the private sector of the economy valued at market prices, after deduction of depreciation charges, plus government services valued at cost. In other words, it is the total value of currently produced goods and services flowing to government, to business for net capital formation, and to consumers. Net national product is equal to national income minus subsidies, plus business taxes, business transfer payments, and bad debt allowances. At least in the United States, net national product will also differ from national income by the increase in the value of inventories arising from price changes to the extent that this increase is included in national income and by the statistical discrepancy involved in independent estimates of the national income and the national product.

Gross national product or gross national expenditure measures the value of goods and services produced in the private sector of the economy valued at market prices, before the deduction of any allowance for the consumption of durable capital goods during the period, plus government services valued at cost. It is equal to net national product, plus current accounting allowances for depreciation, capital outlays charged to current expense, and allocations by insurance companies or self-insurers to reserves against claim payments for fire or other damage to business property (actual claim payments, if books are kept on a cash basis).

The exact wording of these definitions was not formally approved though the substantive meaning of each of the five series was agreed upon. Nevertheless, a report prepared by an interdepartmental committee of the Dominion Bureau of Statistics for limited circulation uses in its preliminary form the term 'net national income at market prices' to describe the series described here as 'net national product'. It is hoped that this difference in terminology can be eliminated before the Dominion's revised statistics are released. I shall have frequent occasion to refer to this useful Canadian document below.

4 Treatment of Specific Items

The formulation of a set of definitions leaves unanswered a host of questions concerning the treatment of specific items. Most of these relate to national income and to gross and net national product. Income payments to individuals and private income before taxes, though not simple notions — especially when calculated for periods shorter than a year — at least do not involve the concept of value of production or of factor income. Most of the theoretical problems in national income and product estimation arise from the difficulty of giving these concepts precision. They are associated chiefly with the measurement of the product of government, with the distinction between personal and business taxes, with the notion of capital consumption, or with the extent to which transactions not involving the transfer of money should be measured and included in the accounts. Some items involve more than one of these difficulties and could equally well be classified under different headings in the following discussion.

A *Value of Governmental Services*

In general, governmental services are to be valued at the factor cost of furnishing them.[1] This is in conformity with the present practice of all three governments represented at the meetings.

Interest paid on the national debt will be classified as a transfer payment and excluded from national income and from gross and net national product. This decision, reached only after long discussion, is based on the contention that the government receives no service in return for its payment of interest; that is, that the privilege of not paying off the national debt cannot legitimately be considered a product; or, viewing the problem from the income side, that the funds lent to the national government are not used 'in production'.

Interest paid on the debt of government units other than the national government will be included in national income and

[1] Some analysts, viewing government as a consumer rather than a producer, observe that government purchases of commodities and services, including labor, are valued at market prices; hence, they suggest, the 'cost' method of valuing governmental services is not a departure from the market-price valuation of private production. If this is accepted, government need not be mentioned specifically in the definitions of gross and net national product. I have preferred the more customary terminology in order to distinguish our treatment clearly from that of Simon Kuznets.

net and gross national product in the United Kingdom and the United States. The rationale of this decision was not made entirely clear, but presumably it is assumed that the magnitude of the debt of these units bears a fairly close relation to the value of their physical assets, so that interest paid serves as a partial offset to the non-imputation of a return on government property. The argument that in this case interest represents a payment for services rendered by the lender is of course ruled out if consistency is to be maintained with the decision to exclude federal interest. Canada, according to present information, will exclude provincial and municipal interest for the same reason that federal interest is excluded.[2]

No imputation will be made for the value of services rendered by government-owned capital goods. Although formal agreement was reached on this point, it was only because some participants, who considered such imputation desirable, believed it statistically impossible to prepare an acceptable estimate.[3]

Depreciation on government property will not be estimated in the United States and Canada. In the United Kingdom it may be estimated and will presumably be added to gross national product. Thus, national income and net national product will be measured net of depreciation of government property in all three countries, while gross national product will include this item in the United Kingdom, but exclude it in the United States and Canada. Depreciation on government property can enter

[2] I cannot forbear noting my personal belief that the American decision on this point is indefensible, if federal interest is to be excluded. The assumption stated in the text is, in my opinion, patently wrong in the case of the United States. Although my personal preferences on certain other items are at variance with the decisions reached, I can in other cases at least find some force to the supporting arguments. (As of February 1946 the Department of Commerce had reversed this decision and determined to exclude all government interest from national income and product. See the reply by the author, below.)

[3] The text statement describes my understanding of the agreements reached at the meetings. However, the Dominion Bureau of Statistics, according to information received in March 1946, has now decided "to regard government debt interest as being divided into two parts. The assumption is that interest paid on debt incurred to finance existing real assets represents a current payment for productive services while interest paid on debt incurred for other purposes does not. Thus the former portion of government debt interest, which is measured by applying the current rate of interest on the long term debt of the government in question to the value of government property as carried in the balance sheets shown in the various public accounts, is included in national income. The latter portion is treated as a transfer payment and excluded."

gross national product accounts only if it is specifically estimated and added to governmental expenditures.

No estimates of changes in government inventories will be included in national income or product.

It is recognized that under conditions of compulsory military service any valuation placed on the services of the armed forces is essentially arbitrary, but it was decided to value their services as equal to their compensation. Compensation of the armed forces, as included in national income and gross and net national product, will be made up of cash pay, cash allowances including dependency allowances, and the value of food, clothing, and any other items of income in kind that can be measured reasonably well. Mustering-out pay, bonuses, and other deferred payments (e.g., payments under the United States 'G.I. Bill') might well be considered compensation for services, but since payment is made at a date far removed from the time the military service was performed, and a reallocation of these payments would be difficult and require continuous revision of the national income estimates for the war years, it was decided to treat these items as transfer payments. In each country special types of payment may require special decisions. In the United States, for example, the government contribution to the national life insurance fund will be included in national income, but the value of special tax privileges granted service men will be excluded.

No deduction from the value of governmental services will be made to eliminate indirect governmental services (governmental services to business). None of the participants believed such a distinction feasible, and some were not convinced of its necessity or desirability.

B *Direct Versus Indirect Taxes*

The problem of distinguishing between direct personal and business taxes, on the one hand, and indirect business taxes, on the other, arises chiefly from the difficulty of determining whether the incidence of a tax rests on a particular factor income or is passed on to consumers or otherwise dispersed through the economy.[4] This determination does not affect gross

[4] Some investigators, including the Canadian authors of the report cited, have denied that the incidence criterion need be adopted, suggesting instead that business account-

or net national product, which are measured at market prices, but does affect the size of national income, which does not include indirect business taxes. Questions have been raised chiefly with respect to three types of tax, whose incidence is probably, in fact, mixed. The arguments on both sides have been so frequently debated that I shall confine myself to a statement of the decisions reached.

Taxes on corporate net income, including excess profits taxes, are direct taxes. Consequently, corporate profits before deduction of income and excess profits taxes will be included in national income.

Taxes levied on business property (including land and residential housing) are indirect taxes and excluded from national income.

Social insurance payroll taxes, whether levied on employer or employee, if counted as taxes at all, are direct taxes and included in national income. But social security payroll taxes may be viewed not as taxes but as income accruing to individuals, the time of payment differing from that of its accrual. In this formulation the government acts merely as the administrator of the fund. It is this latter statement that seems to correspond best to the general treatment of social insurance described below.

C *Measurement of Capital Consumption and Inventory Change*

The inadequacy of accounting depreciation charges as a measure of capital consumption explains in part the popularity of the gross national product concept, which does not require data for capital consumption, and is the main reason why the Department of Commerce has been reluctant to issue a net national product series.

Nevertheless, it was decided that, at least for the present, no better measure of the consumption of durable capital goods by use and obsolescence is available and the accounting measure

ing procedures will show whether a tax is direct or indirect. If taxes are treated as costs by business they should be treated as indirect. It seems to me, however, that this approach merely makes the accountant, instead of the investigator, the judge of incidence — and that without a clear understanding of what decision he is supposed to be making.

will be accepted. No proposal to revalue depreciation charges for price change was made. Along with depreciation charges, capital outlays charged to current expenses and provision for fire and similar damage to business property will be excluded from net national product and national income.[5]

It was agreed that an adjustment to all five basic series *should* be made to eliminate changes in the value of inventories due to changes in prices rather than to changes in the physical volume of inventories. But it is difficult, chiefly but not exclusively because of differences among firms in accounting procedure, to determine the extent to which such price changes affect the basic accounting data with which the estimator must work. Because of the impossibility of making an accurate adjustment of the accounting figures by industry and distributive share, only changes in farm inventories will be valued at constant prices in the three income series in the United States (changes in farm inventories can be valued this way in the first instance). In other industries accounting figures will be accepted. However, an over-all adjustment for the revaluation of nonfarm inventories will be made in gross and net national product. In the United Kingdom this adjustment will be included in the income as well as the product series. In Canada, it will not be made in either series, except for agriculture and for grain held in commercial channels.[6]

[5] This treatment of capital outlays charged to current expenses assumes that they equal depreciation charges on such outlays made in the past. A more exact treatment would add back such outlays to business profits into national income, deduct from profits an estimate of depreciation on capital goods charged to current account in the past, and add this estimate to the depreciation item used in reconciling net with gross national product; but this treatment is beset with even more statistical difficulties than that adopted.

Provision against damage to property (including residential housing) by fire, storm, automobile accident, etc., rather than actual loss sustained, is, in a general formulation, made the measure of capital consumption. It may be noted that not premiums, but allocations by insurance companies or self-insurers to reserves against claim payments for damage to business property (actual claim payments, if books are kept on a cash basis) measure protection against loss.

[6] Shortly before proof was received on this volume, the United States Department of Commerce decided to include the adjustment for revaluation of inventories in all its income series as well as in the national product. This decision was made, in the face of statistical difficulties, to avoid perpetuating an illogical difference between national income and national product. It is in line with the views expressed by several participants in this Conference in the discussion published below.

It was agreed that charges to reserves for depletion should not be deducted from national income, but should be added back into business profits. Correspondingly, they will not be deducted in computing net national product. For this, there is the conceptual reason that discovery of mineral resources is not counted as gross capital formation, so that allowance of depletion destroys the balance between capital formation and capital consumption; and there is the very important statistical reason, at least in the United States and Canada, that the tax laws governing accounting of this item are such as to give meaningless accounting figures. It was pointed out that if any genuine depreciation of actual development expenses was included in depletion charges it should be transferred to the depreciation account.

D *Items of Noncash Income*

In general, to quote Kuznets, it is desired to include in the national income and product account transactions in "all goods appearing on the markets of the country (subject to restrictions imposed by other issues), whether exchanged for money or for other goods, plus the retained products of activities most of which result in marketable goods, plus the imputed return from a type of consumer good (residential housing) whose services are in large degree separable from the commodity itself and are bought and sold on markets". These aggregates are "essentially an appraisal of the final net product of the business and public economies of the country, two of the three important social institutions that contribute to the production of economic goods and exclude completely the product of the third — the family".[7]

1 Payments in kind by employers to employees and goods withdrawn by proprietors for consumption are to be included in national income and gross and net national product, provided they clearly represent income to the recipient. They are to be valued at cost to the employer or firm (in the case of food produced and consumed on farms, at farm prices). Income in kind to members of the armed forces, as already noted, will be included.

[7] *National Income and Its Composition, 1919–1938* (National Bureau of Economic Research, 1941), pp. 9 and 10. In these quotations Kuznets is referring to national income, but the statement is equally applicable to all our accounts.

2 The net imputed rent on owner-occupied dwellings is to be included in national income and gross and net national product.

3 Modified treatment will be given financial intermediaries such as banks and holding companies in order to include in national income and product the value of investment, account keeping, and other property management services rendered by these agencies without explicit charges. It is customary for firms in this field to short-cut usual business practices. They obtain payment for the services they render by retaining some or all of the income derived from lending the customer's funds, instead of paying such income to the customer and then making an explicit charge for their own services. This treatment, as developed for use by the United States Department of Commerce, is described in Dwight B. Yntema's paper. The present statement is a brief description of the techniques agreed upon at the meetings.

Interest income will be imputed to bank depositors. The amount to be imputed is equal to interest and dividend income received by banks minus interest actually paid on deposits. This imputed income item is offset in national product computation by an imputed expenditure by the individual, government, or business depositor for banking services. Only to the extent that interest is imputed to individuals and governments does this imputation increase national income and national product.

Property income of life insurance companies is measured in national income as if it were received directly by individuals. So far as total national income is concerned, it makes no difference whether the 'aggregates of individuals' method or the more refined technique to be adopted by the Department of Commerce (as described in Yntema's paper) is followed. In national product, claim payments by life insurance companies wash out as transfers between individuals, their operating expenses (excluding expenses incurred in managing real estate) appear as consumption expenditures, and the remainder of their receipts becomes individual savings.[8]

[8] In this treatment the total property income received by life insurance companies may be viewed as an imputed property income item to individuals, although to the extent that it includes savings it is really withheld cash income treated as if it were currently paid. In national product, operating expenses of life insurance companies are an imputed consumption expenditure.

The treatment of investment trusts, holding companies, and miscellaneous lenders is similar to that of life insurance companies, but too technically detailed to be discussed here. The reader is referred to Yntema's paper. The general procedure calls for the inclusion of operating expenses incurred in investment activities as imputed property income in national income and as a consumption expenditure in national product.

All items of imputed income in national income will be included also in income payments to individuals and private income before taxes. Government transfer payments not made in cash will not be included, however; to enter such items would lead to a breakdown of the distinction between the governmental and the private sphere of activity — particularly to obscuring the distinction between governmental expenditures, on the one hand, and consumption expenditures of individuals, which must be comparable to income payments to individuals, on the other.

E *Treatment of Social Insurance and Similar Programs*

National income includes employer and employee contributions to social insurance funds but excludes benefit payments from the funds. Interest payments into the funds are in principle included as income accruing to individuals (though they may be eliminated as interest paid by the national government). Income payments to individuals exclude employer and employee contributions and interest received by social insurance funds as income accrued but not paid during the period, but include benefit payments from the funds as income paid although not accrued in the period. According to this formulation, the only reason for a difference between national income and income payments with respect to the treatment of social insurance funds is the difference in timing between the accrual of income and its receipt by the individual. Pension plans for government employees are covered by this treatment.

An identical solution for national income can be obtained by a different approach. Since social insurance payroll taxes are direct taxes, they are included in national income, and since interest paid into the fund is interest received by the government, it is included (unless eliminated as interest paid by the federal government). Benefit payments, on the contrary, are excluded, for they are transfer payments. Unless payroll taxes are counted as direct business taxes, rather than personal taxes, however, this formulation would require the inclusion in income payments to individuals of both payroll taxes (since income payments are measured before the deduction of personal taxes) and benefit payments.

In the United States, where workmen's compensation is typically privately administered, claim payments, including the value of medical care, will be included in both national income and income payments. In Canada, workmen's compensation is handled via state funds, and the treatment will be the same as for social insurance funds. Medical care will be excluded from national income and income payments in Canada.

Self-administered private pension funds are treated in the same way as social insurance. In the case of informal plans where no fund is established, the employer contribution is taken to be identical with the benefit payment. If the plan is administered by a life insurance company the employer contribution is included in both national income and income payments, and the pension payment excluded, because life insurance companies are treated as associations of individuals.

F *Other Items*

Government subsidies to private industry, so far as they can be identified, will be excluded from net and gross national product, but will not be deducted from national income. This treatment would seem to be required by the definitions adopted for the three aggregates; factor cost or income exceeds market price by the amount of the subsidy.

Business reserves for bad debts will be excluded from national income since they are not factor income, but, at least in the United States, will be included in gross and net national product since they enter into market prices.[9] Canada has not yet found it feasible to estimate this item and until it can estimate it, will of necessity exclude it from the product estimates.

Emergency and contingency reserves will be included in national income (in profits) and national product.

[9] Professional services, handled as a special case, are an exception in the United States. They are measured net of bad debts in the national product series.

Consumer debt interest is a troublesome item. An analogy with government interest can be drawn, since both represent interest on funds borrowed for purposes of consumption (if government and consumer purchases of durable goods are considered consumption rather than investment). This analogy has been used to justify the inclusion of government interest as payment for a 'consumer' service. If government interest is excluded, however, this parallel suggests the exclusion of consumer interest.

This argument may be countered in the following way. Since the bulk of consumer interest payments is consumed by the operating charges of the lender, it is a disguised payment for the lender's services in arranging the loan. In addition, the bulk of consumer debt arises from the purchase of consumer durables so that, to the extent consumer interest is 'pure' interest, it serves as a partial offset to the nonimputation of a return on consumer durable goods. Thus, the line of reasoning that leads the United Kingdom to include interest on the debt of local governments may justify the inclusion of personal debt. It has also been suggested that consumer interest paid on debt arising from the purchase of commodities should be counted as part of the price of the commodity.

No agreement was reached on the treatment of consumer interest, although it was much discussed. It is my understanding that the United States will include consumer interest, Canada will exclude it but impute an amount equal to the expenses of the lender in handling the loan (including bad debts), and the United Kingdom will probably follow the Canadian treatment. If consumer interest is excluded from national income, it is unique in that it represents a transfer payment from individuals to business.[10]

[10] If the economy is divided into private industry, government, individuals, and foreign countries (to the extent that they impinge on the other three sectors) then transfer payments can in principle arise between any one sector and each of the other three. Thus there are transfer payments from government to individuals (e.g., direct relief); from government to business (called subsidies); from government to foreign countries (e.g., lend-lease); from individuals to government (e.g., gifts); from individuals to foreign countries (personal remittances); from business to individuals (gifts to nonprofit organizations, treated as quasi-individuals; liability claims paid, chiefly for automobile accidents; prizes for contests); from foreign countries to individuals (personal remittances) and to government (e.g., reverse lend-lease). The other possible

Nonprofit organizations, such as chambers of commerce and trade associations, which furnish services to business enterprises, are treated like ordinary businesses.[11]

Nonprofit organizations, such as churches, hospitals, and labor unions, which furnish services to individuals, are treated as associations of individuals. Their services are valued at cost. Their investment income is not eliminated from national income. Payments received from government are treated as transfer payments.

National income refers to suppliers of production factors who are resident in or temporarily absent from the country. The pay of government employees is classified in the national income of the employing government, regardless of the location of the employee.[12] The armed forces abroad and employees of nonprofit organizations associated with them are specifically included. Income of domestic residents from investments abroad is included in national income; income of foreigners from domestic investments is excluded. Because it is difficult to estimate, no adjustment for corporate savings accruing to foreigners will be made. The other aggregates are consistently defined.

G *Industrial Distribution of National Income*

Income originating in each industry measures the return to the labor and capital resources employed in it. In the United States it is computed as the sum of (1) compensation of employees,

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interflows do not seem to exist in any significant amount, unless consumer interest is treated as a transfer payment from individuals to business.

Not all transfer payments are treated alike in the national accounts. Those paid by business, for example, are excluded from national income but must be included not only in income payments, if they are paid to individuals, but also in the two product series, since they are covered by market prices; whereas those paid by government are excluded from the two product series.

There may also be 'transfer payments' within each sector (e.g., gifts between individuals and federal grants-in-aid to state governments) but these are netted out of the national accounts.

[11] In principle, an item of business savings of these organizations must be included in national income, but statistically it can be ignored.

[12] Except that foreigners employed abroad are to be included in the national income of the country in which they are located. This point was not discussed at the meetings but seems a reasonable modification. Otherwise, Germans employed by the American occupation forces in Germany, for example, would be included in the United States national income (as they are now, though somewhat inadvertently).

(2) net income of unincorporated enterprises, (3) income taxes and savings of corporations, and (4) the excess of the value of dividends and interest paid out over the value of dividends and interest received (including imputed interest received from banks).

Income originating in an industry also measures the 'value added' by it, defined as the excess of the value of the industry's product over (1) purchases of goods and services from other enterprises (including rents paid and imputed payments for banking services), (2) charges purporting to measure the consumption of durable capital goods, and (3) business taxes.

By this treatment, rented real property is classified as employed in the owning rather than in the lessee industry, and payment of rent is consequently considered a purchase from another enterprise. The correctness of this classification is clear in as much as contract rent is a gross receipt, not a net income share. Individuals owning property and receiving rents are treated, with respect to this activity, as individual proprietorships and classified in the real estate industry.[13] There was some dissent from this treatment of rent.

5 Changes in Department of Commerce Concepts

It may be useful to list the important changes in the Department of Commerce national income, gross national product, and income payments series that will result from the decisions just described. Most of these changes had already been decided upon before the meetings were held. Other changes, not discussed at the meetings or listed here, are also contemplated.

Changes affecting both National Income and Gross National Product

Interest payments on government debt will be eliminated.

Imputed net rent on owner-occupied dwellings will be added.

[13] In Commerce Department estimates income of persons incidentally receiving rents, as contrasted to professional real estate operators, will be segregated from the net income of unincorporated enterprises proper in the real estate industry and labeled net rents.

One exception is contemplated in the United States and, I believe, in Canada. Farm rents paid to landlords living on farms will be included in the farming industry. This has the theoretical justification that renting of farm land (as lessor) is an integral part of farming operations, and also has certain practical advantages. It will be a departure from present Department of Commerce practice.

Government contributions to dependency allowances and to insurance funds for the armed forces, and income in kind to members of the armed forces will be added.

Compensation of foreigners employed abroad by the government will be eliminated.

The treatment of financial intermediaries will be changed.

Changes affecting National Income but not Gross National Product

Taxes on corporate profits will be added.

Depletion charges will be added.

Employer contributions to private pension plans will be substituted for benefit payments under such plans.

Changes affecting Gross National Product but not National Income

Subsidies paid to private enterprises will be eliminated.

Changes affecting Income Payments to Individuals

Imputed net rent on owner-occupied dwellings will be added.

Income in kind to members of the armed forces will be added.

Compensation of foreigners employed abroad by the government will be eliminated.

The treatment of financial intermediaries will be changed.

Business transfer payments will (or at least should, in principle) be added.

6 Remaining Areas of Difference

As a result of the Washington discussions, most of the quantitatively important differences among the three countries in measuring national income and national product will be eliminated. The treatment of interest on the national debt, taxes on corporate income, and imputed rent on owner-occupied dwellings will be uniform as a consequence of the adoption by the United States and Canada of the United Kingdom methodology.

Remaining differences in treatment associated with the problem of establishing a capital account for government concern imputed interest and depreciation on government property and interest paid on the debt of local governments. Other differences concern the revaluation of inventories in national income and 'pure' interest on consumer loans.