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1 Transfers in a Total Incomes System of Accounts

Robert Eisner

1.1 Introduction

I propose in this initial paper of the conference to project a broad horizon for transfers. I shall move beyond the current National Income and Product Accounts (NIPA) to suggest for consideration all payments or transfers of income in money or in kind that are not in return for current services.

Our essential conceptual notion is that factor incomes for current production—the components of national income—are the direct rewards for current services, without which the current production related to those services would not take place. All other shifts of goods and services or command over them may, for certain purposes at least, be considered transfers. This will set a considerably broader net than the framework in NIPA.

The NIPA definition is simple, deceptively simple: "*Transfer payments to persons* is income payments to persons, generally in monetary form, for which they do not render current services. It consists of business transfer payments . . . and government transfer payments" (NIPA 1981a, p. xi).[1] Examination of this definition, however, may quickly suggest several problems: (1) Why the restriction, "generally in monetary form"? (2) What are "services" and what are "current services"? (3) Why restrict transfer payments to persons to business transfer payments and government transfer payments? Why exclude transfers within the consolidated

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personal sector, that is, payments from nonprofit institutions and pension funds to households, transfers between households, and transfers within households?

In a recent major article, Danziger, Haveman, and Plotnick (1981) undertook to survey "how income transfers affect work, savings, and the income distribution." These indeed are the major issues usually associated with transfers. By divorcing remuneration from the supply of services for current production, transfers affect work, savings, and output. They also affect savings by their effects on wealth and because of differences in marginal propensities to consume as between transferors and transferees. And of course, except to the extent that they prove self-canceling, they must affect the income distribution. Considering all of these issues, however, is there anything unique about the limited measures of transfer payments in NIPA? Are the transfer items included in NIPA adequate to inform us how transfers affect work, savings, and the income distribution? Might they even be misleading to the extent that they may substitute, at least in part, for transfers not included in NIPA?

Perhaps the most obvious restriction narrowing the measure of transfer payments in NIPA is that requiring that they be "generally in monetary form." This leads to the substantial exclusion of in-kind transfers in education, housing, medical care, and elsewhere.[2] Indeed, the great bulk of government activity—federal, state, and local—entails the transfer of services to business and to persons. Imputations for the value of these services are likely to be considerably higher than either the value of government purchases of goods and services or the value of product originating in government. For NIPA accounts make no allowance for any value of government product corresponding to government capital consumption or government capital income.

A second important restriction narrowing the measure of transfers in NIPA relates to the broad view of payments for current services. First, current payments to the owners of factors of production are generally presumed to be for current services. Yet in many instances employees are paid wages and salaries more than or less than the value of their current services, sometimes in the expectation of longer run employment commitments. Slowing of economic activity is widely believed to bring on substantial labor hoarding, when firms continue to pay employees at their previous rates even though fewer (if any significant) services are being performed. The excess of such payments over the value of current services might well be viewed as transfer payments, if their definition is to be taken literally.

Of course a degree of arbitrariness exists in the definition of the period of time taken to be "current." Viewing salaries earned while employees are on coffee breaks as transfer payments is not considered useful. At the other extreme, if we look at payments over a lifetime, most of what are conventionally viewed as transfer payments involve deferred compensation for previous services and are not transfers from one individual to another. As the period is extended, the discrepancies between payments and services during the period are progressively reduced. Ultimately, not only cyclical unemployment benefits but old age and retirement pensions might be viewed in large part as payment for services of the extended period.

Taking literally the implicit NIPA definition of the period of current services, we are impelled to open the very large question of whether interest and dividends may usefully be viewed as transfers rather than payments for current services.[3] One of the arguments for including government interest as a transfer is that it relates largely to debt on past wars having nothing directly to do with current production. One may argue similarly for business interest, however, that it relates to past debt, for whatever purpose, and that its payment, except for our bankruptcy laws, has nothing to do with *current* production. This would appear true with even less qualification for dividends. Surely there would be little effect on current production if dividends were not paid. One might then wish to treat business profits, gross of dividends and interest payments, as an income charge against gross national product. The dividends and interest payments would constitute transfers of this profit.

In a longer run or equilibrium sense, the dividend and interest payments may be considered necessary for production, given our institutional arrangements, that is, a set of economic relations defined by private capitalism. But again, they are not literally payments for *current* production. As with the components of personal income characterized as transfers in NIPA, fluctuations in dividend and interest payments conform so little to variations in current production as to be viewed as stabilizers of aggregate demand. And like the transfer payments currently recognized in NIPA, dividend and interest payments tend to reduce the elasticity of supply of current production services with respect to payments for those services. Aside from the age-earnings test in current laws, an elderly person with substantial interest receipts may be just as reluctant to work for a current wage or salary as one receiving Social Security benefits.

Another example of the narrowing of the measure of transfer payments in NIPA occasioned by a broad view of factor payments is the inclusion of dependency allowances to personnel of the armed forces as compensation of employees. Since personnel without dependents presumably perform the same duties as those of similar rank and occupation who have dependents, the additional remuneration in the form of dependency allowances may be viewed as a transfer rather than a payment for services necessary to current production.

The third restriction, relating to sectoral consolidation, serves to exclude a vast array of interpersonal transfers. It has been argued that the very growth of intersectoral transfers in the form of government payments to persons, such as for retirement, medical care, and general welfare, has corresponded to a reduction in similar transfers from children to parents and parents to children and from charitable institutions to those in need.

Ignoring these restrictions, we shall undertake to enumerate a variety of transfers, broadly conceived, that are not currently included in NIPA but may have economic consequences for work, savings, and income distribution as significant as the transfer payments currently included. In some cases we shall indicate estimates of dollar magnitudes, where they are readily available. We shall present, in particular, a set of estimates of transfers in kind, mainly of government services, but also some additional business transfers, developed from our Total Incomes System of Accounts.[4] In none of this do we make so bold as to advocate altering the current accounts. In some cases and for some purposes we may readily concede that the narrower, more precise focus in NIPA is preferable. Our suggestions are rather to be viewed as an attempt to fit the discussion of transfers into a larger context. We may perhaps illuminate a bit further a path for a supplementary set of accounts that would give a fuller, systematic view of the role of transfers in the economy.

1.2 A Broad View of Transfers

We shall undertake implementation of a broad concept of transfers which aims to include all changes in command over goods, services, and resources that are not direct remuneration for current production. It will involve payments in kind as well as in money. It will involve taxes and tax expenditures, government services, and government interventions which have been inserted into or superimposed on the production process. It will also involve net revaluations, or capital gains and losses in excess of changes in the general price level. And it will involve a good deal of what are viewed as intrasectoral transfers and hence not included in NIPA.

A semantic discussion of whether all the items regarded are properly labeled transfers would have only limited value. They all appear to have the characteristics of separation from payment for current production in the sense that, in whole or in part, they are not remuneration for services essential to current output. Yet they do convey or take away current goods and services or the means of payment for them.

A framework for presentation of relevant data, other than tax expenditures and net revaluations, may be found in table 1.1, a considerably extended development of formulations found in Lampman (1975). Following earlier suggestions of Cohen and Gainsbrugh (1958), we break the personal sector into three subsectors: nonprofit institutions, insurance and pension funds, and households. We also separate government enterprises from the business sector. Intersectoral transfers will then involve seven sectors, including the rest of the world. In addition, we take into special account transfers within the household sector.

Turning first to business transfers, we note those business transfer payments currently included in NIPA. As shown in appendix A, they entail corporate gifts to nonprofit institutions and insurance payments for auto liability for personal injury, railroad and miscellaneous liabilities, and medical malpractice liabilities. They also include consumer bad debts, losses due to forgeries, and unrecovered thefts. (This last, if taken correctly, would include shoplifting, which seems to be grossly underestimated at $147 million in 1976 and $225 million in 1979.) The NIPA business transfer payments also include a small item for cash prizes.

Our separation of insurance and pension funds from the personal sector points to the inclusion of most of NIPA's nonlabor income (minus directors' fees). This is the item, "Employer contributions to private pension and welfare funds" in table 1.1, a hefty $74.8 billion in 1976, and growing rapidly since then. It was $117 billion in 1979.

In our Total Incomes System of Accounts (TISA) we have generally treated indirect business taxes as payment for government services or "intermediate product transferred from government." Since it is frequently difficult if not impossible to tie such taxes to particular services, it may be more useful to report all taxes as transfer payments to government. Hence among business transfers to government we will here include indirect business taxes, corporate profits taxes, and contributions for social insurance by employers and self-employed.[5] In addition, we list taxes paid to foreign governments.

Next under business transfers we include an item for the consumption value of media services transferred from the business sector to households. This, of course, relates to most of the entertainment and general information services of commercial television, radio, newspapers, and magazines. These do not turn up in NIPA as income or consumption to the extent that they are viewed as intermediate purchases and sales by business. Similarly, we add as business transfers to households the general provision of health and safety services to employees and business expenditures for protection of the environment. Estimates for the years 1946, 1956, 1966, and 1976 of media and health services and other transfers taken from our Total Income System of Accounts are in table 1.2.

We also include business interest payments and dividends as transfers, as suggested by Rolph (1948) and Hagen and Budd (1958). In our tabulation we count all of *net* business interest as going to the consolidated household sector as well as the portion of gross business interest payments corresponding to consumer interest payments to business. Net

Table 1.1 **Transfers in an Expanded Set of Accounts, Exclusive of Tax Expenditures and Net Revaluations, 1976[†] (billions of dollars)**

	Sector						
Sector Transfer	Business	Government	Government Enterprises	Nonprofit Institutions	Insurance & Pension Funds	Households	Rest of World
Business[†]	−584.3	+290.3		+1.5	+74.8	+168.3	+49.3
Bus. trans. payments from NIPA	−7.9			+1.5		+6.4	
Employer contrib. to priv. pens. & welfare funds	−74.8				+74.8		
Indirect bus. taxes	−151.7	+151.7					
Corp. profits taxes	−63.8	+63.8					
Employer contrib. for soc. insur.	−74.0	+74.0					
Taxes paid to foreign govt's.	−49.3[a]						+49.3[a]
Media consumption services*	−8.6					+8.6	
Health & safety	−2.9					+2.9	
Environment	n.a.						
Net interest	−87.2					+87.2[b]	
Consumer interest	−26.7					+26.7[b]	
Dividends (net)	−37.4	+0.8				+36.5[b]	
Pay in excess of current serv.	n.a.						

Government[†]	+97.8	−645.0	+15.2	+3.3	+521.0	+7.7
Gov't. transfer pay. from NIPA		−189.6			+186.4	+3.2
Military dependents' allowances		−0.6[c]			+0.6[c]	
Medicaid		−9.2			+9.2	
Gov't. interest (net)		−23.1			+18.6[b]	+4.5
Agricultural expenditures	+5.0	−5.0				
Housing subsidies		−3.1			+3.1	
Other subsidies	+2.0	−2.0				
Loan programs		n.a.				
Licenses		n.a.				
Pay in excess of current services		n.a.				
Consumption services*		−77.4			+77.4	
Education services*		−140.8			+140.8	
Health services*		−17.0			+17.0	
R & D*	+14.5	−14.5				
Fixed capital*		−13.1	+13.1			
Intermediate product*	+76.3	−149.6	+2.1	+3.3	+67.9	
Government Enterprises*	+5.2		−10.0	+0.2	+4.6	
Negative surpluses	+1.6		−3.1	+0.1	+1.4	
Capital income	+0.1		−0.2		+0.1	
Capital consumption allowances	+3.5		−6.7	+0.1	+3.1	
Nonprofit Institutions				−31.9	+31.9	
Cost of product minus charges				−18.3[d]	+18.3[d]	
Volunteer services*				−13.6	+13.6	

Table 1.1 (continued)

Sector Transfer	Sector: Business	Government	Government Enterprises	Nonprofit Institutions	Insurance & Pension Funds	Households	Rest of World
Insurance & Pension Funds					−68.8	+68.8	
Pension & profit sharing					−33.0	+33.0	
Group health insurance					−22.8	+22.8	
Group life insurance					−4.4	+4.4	
Workmen's compensation					−8.2	+8.2	
Supplemental unemployment					−0.4	+0.4	
Other insurance					n.a.		
Households[†]		+232.6		+30.4	+5.7	−269.7	+1.0
Transfer pay. to foreigners (net)						−1.0	+1.0
Gifts to nonprofit instit.				+16.8[e]		−16.8[e]	
Volunteer services				+13.6		−13.6	
Personal taxes		+180.0				−180.0	
Employee contrib. for soc. insur.		+52.0				−52.0	
Pers. contrib. to pension funds					+5.7[f]	−5.7[f]	
Per. pay. to insur. companies						n.a.	
Coerced services* (draftees & jurors)		+0.6				−0.6	
Services in excess of current pay						n.a.	

Rest of World		+8.3	+1.4				+4.8	−14.4
Dividends (net)		+3.4[b]	+0.1[b]				+4.8[b,g]	−8.2
Net interest		+4.9	+1.3					−6.2
Totals excluding taxes								
From sector		245.5	645.0	10.0	31.9	68.8	37.7	14.4
To sector		111.3	2.8	15.2	35.4	80.5	799.4	8.7
All sectors	1,053.3							

n.a. = not available.

†*Source*: NIPA (1981b), except where otherwise indicated. Totals incomplete.

*From Total Incomes System of Accounts (TISA), derived in part from unrevised NIPA data.

[a]From Bureau of Economic Analysis, by phone, 1977 figures.

[b]Figure is for consolidated personal sector; breakout of nonprofit institutions and insurance pension funds is not available.

[c]Estimated from data provided by Assistant Director of Compensation, Office of Assistant Secretary of Defense for Manpower Reserve Affairs and Logistics.

[d]Assumed equal to sum of household and business gifts to nonprofit institutions and further assumed all to be transferred, at least eventually, to households.

[e]From U.S. Department of the Treasury, *Statistics of Income, 1976*. Includes only contribution deductions listed on tax returns.

[f]From U.S. Department of Labor (1981), interpolated from 1975 and 1977 figures.

[g]Allocated in proportion to total dividends received.

Table 1.2 **Transfers in TISA: 1946, 1956, 1966, 1976**

	Billions of Dollars				Percent P.A. Growth Rates			
	1946	1956	1966	1976	1946–56	1956–66	1966–76	1946–76
From government	71.0	85.6	178.3	374.4	1.9	7.6	7.7	5.7
To households	31.8	51.6	115.5	278.2	5.0	8.4	9.2	7.5
Consumption	5.4	10.2	27.6	77.4	6.6	10.5	10.9	9.3
Public schools	5.5	14.9	40.0	115.9	10.5	10.4	11.2	10.7
Health	1.0	2.5	5.5	17.0	9.5	8.1	12.0	9.9
Intermediate product	19.9	24.0	42.4	67.9	1.9	5.9	4.8	4.2
To business	37.5	32.6	59.6	90.8	−1.4	6.2	4.3	3.0
Research and development	.5	3.9	10.9	14.5	22.3	10.9	2.9	11.7
Intermediate product	37.0	28.7	48.7	76.3	−2.5	5.4	4.6	2.4
To nonprofit (intermediate product)	.7	.8	1.9	3.3	.9	9.5	5.6	5.3
To govt enterprises (intermediate product)	.9	.6	1.2	2.1	−4.1	6.7	5.9	2.7
From government enterprises:								
Interest plus negative surpluses	.7	2.1	2.6	3.2	12.5	1.8	2.3	5.4
From business: Media support	.6	1.9	4.0	8.6	11.4	8.0	8.0	9.1
From nonprofit institutions:								
Imputed value of volunteer services	1.7	3.4	5.8	13.6	7.3	5.3	9.0	7.2
Total transfers	73.9	93.0	190.6	399.8	2.3	7.4	7.7	5.8

Numbers may not sum to totals because of rounding.

dividends other than those to government are also recorded as received in the household sector.

Finally, we include a category called "business pay in excess of current services." This will include items such as paid sick leave. But it also involves any payments that, out of consideration for the desirability of long-term employment commitments, do not match current services. These might in principle include some or all of payments to salaried and other workers who become redundant to current production in periods of cyclical downturn and to old employees who may be retained without salary reduction although their productivity has declined significantly from that of their prime years.

In government transfers we again include the major items from NIPA of government transfer payments to persons and to foreigners. (See appendix A for details.) We also include net government interest payments. In addition, we reclassify as transfers at least two government payments now included in government purchases of business services. These are dependents' allowances for members of the armed forces and Medicaid. The first of these may be viewed, as in NIPA, as a form of remuneration to members of the armed forces. On the assumption, however, that members of the armed forces without dependents perform the same duties as those with dependents, it would seem more appropriate to view these allowances as transfers. As for the case of Medicaid, it seems clearly more appropriate to classify it, with Medicare, as a transfer. The different treatment in NIPA, apparently related to distinctions regarding the discretionary role in choice of services, seems of doubtful relevance in terms of a broader view of transfers.

We also count as transfers agricultural subsidies and other expenditures, including government payments for crop supports, which are treated as government purchases of goods and services in NIPA. We add other subsidies in the form of government services offered below cost, such as some low-rental public housing. Analogously, a large portion of government and government-sponsored loan programs involve substantial elements of transfer to business, home owners, and students.[6]

The award of licenses for television and radio stations, for imports, and for other purposes may also best be viewed as transfers.[7] And as with business employees, we include any payments to government employees in excess of the value of their current services.

Next, from our Total Incomes System of Accounts we include the major items of government services provided to the public without charge. We have separated these into categories of consumption (such as parks and recreation services), public education services, health services (in addition to those included in Medicare and Medicaid), and research and development expenditures. Here we should include at least a portion of government payments to nonprofit institutions for R & D.

Also classified as a government transfer is the fixed capital that the government gives to government enterprises (currently included in NIPA merely as government expenditures for goods and services). And last, we recognize the vast amounts of government services, including those of the military and police, that may be viewed as intermediate in the production of final output but are made available without charge to the user.

The sale of government enterprise product below a correct measure of cost also constitutes a transfer. In NIPA government enterprise product is valued, like business product, at market prices. For this sector, however, market prices are not a measure of cost. Government enterprise product in many instances involves a significant government subsidy. First, the price of government enterprise product does not usually reflect all, if any, of the value of capital consumption or the income of capital generally furnished to government enterprises by government. Second, government enterprises not infrequently operate at a loss. Such negative surpluses of government enterprises are akin to the subsidies with which they are lumped in NIPA. We therefore take the sum of negative surpluses and the consumption and income of capital as a measure of transfers by government enterprises.

Similarly, nonprofit institutions may be viewed as transferring income and services to households to the extent that their charges are less than costs. This should in principle amount to at least the value of gifts received by nonprofit institutions. In addition, nonprofit institutions are transferring, in the value of their product, an amount equal to the value of volunteer services which they utilize without cost.

Some components of insurance payments to households, such as various liability payments, are already included in NIPA business transfer payments, as indicated above. Most pension and insurance payments do not enter NIPA accounts as transfers, however, as they do not qualify as intersectoral flows. If pension and insurance company funds are segregated from the household sector, we can argue in an accounting sense that their payments to households are as much transfer payments to recipients as are corresponding pensions out of government insurance funds for old age and retirement or Medicare.[8] Clearly the economic effect on households of such payments out of private insurance and pension funds is similar to corresponding payments by government classified as transfers. Like government transfers, these payments are not related to current services. Like government transfers, these payments will tend to stabilize household purchasing power and demand. And like government transfers, they may reduce the elasticity of labor supply to wages and salaries.

Among intersectoral transfers by households, we take, from NIPA, payments from persons to foreigners. We list gifts to nonprofit institutions and volunteer services, generally presumed also to go to nonprofit institutions. Personal taxes, but not nontax payments, are listed as transfers. In addition, we include the value of services households transfer to government when individuals are coerced into performing these services at less than market remuneration, or less than what would be necessary to induce the services in a free market. This applies particularly to conscription for military service, in the years when it has been in effect, and to jury duty. Finally, in any particular period some workers are offering services whose value exceeds current remuneration. This excess may be viewed as transfers by households to their various employers.

We complete the tabulation by adding two items from the rest of the world account that, consistent with our earlier discussion, also qualify as transfers. These are net dividends and net interest paid by the rest of the world to the United States.

1.3 Summary Tabulations

While no great precision is claimed for our numbers, particularly those not taken from NIPA, and our allocations are in some cases arbitrary, some of the totals may prove interesting. In particular, excluding taxes, we may note that gross business transfers come to $246 billion, as compared to $8 billion for the business transfer payment item in NIPA. Gross government transfers amount to $645 billion, of which only $190 billion was the NIPA government transfer payment item. Transfers received by households amounted to $799 billion, of which $168 billion came from business, $521 billion came from government, $5 billion came from government enterprises, $32 billion came from nonprofit institutions, $69 billion came from insurance and pension funds, and $5 billion came from the rest of the world. These totals are incomplete, as indicated by the items for which we are unable to locate or prepare estimates. In some cases, particularly with interest payments, we have used only net flows. The various totals may be compared with a 1976 gross national product of $1,718 billion.

Some of the substance and logic of all of this may be better grasped by examining the reclassification of net transfers to households by type and sector of origin presented in table 1.3. We note here first that NIPA transfer payments to households for 1976 amounted to $194.3 billion, of which $7.9 billion were from business and $186.4 billion were from government. Our suggested additions to NIPA transfer payments come to $743.3 billion, almost four times the amount of transfers to households included in NIPA.

We break the additions to NIPA transfer payments into three categories: (1) in-kind; (2) NIPA payments for current goods and services which we reclassify as transfers; and (3) NIPA intrasectoral payments which become intersectoral because of our deconsolidation of the NIPA house-

Table 1.3 Net Transfers to Households by Type and Sector of Origin, Exclusive of Taxes, Tax Expenditures and Net Revaluations, 1976 (billions of dollars)

Type	Sector of Origin	Transfer		Amount
NIPA transfer payments				194.3
	Business	Bus. trans. payments	7.9	
	Government	Gov't. trans. payments	186.4	
			194.3	
Additions to NIPA transfer payments				743.3
In-kind	Business	Media consumption services	8.6	
		Health & safety	2.9	
		Environment	n.a.	
			11.5	
	Government	Medicaid	9.2	
		Other health	17.0	
		Education	140.8	
		Housing subsidies	3.1	
		Other subsidies	2.0	
		General consumption	77.4	
		R & D	14.5	
		Fixed capital	13.1	
		Government enterprise subsidies	10.0	
		Intermediate product	149.6	
		Loan programs	n.a.	
		Licenses	n.a.	
			436.7	448.2
NIPA payments for current goods and services	Business	Net interest	87.2	
		Consumer interest	26.7	
		Dividends	37.4	
		Payment in excess of current services	n.a.	
			151.3	
	Government	Military dependents allowances	0.6	
		Interest (net)	23.1	
		Agricultural expenditures	5.0	
		Payment in excess of current services	n.a.	
			28.7	

Table 1.3 (continued)

Type	Sector of Origin	Transfer		Amount
	Rest of World	Net interest	6.2	
		Dividends (net)	8.2	
			14.4	194.4
NIPA intra-sectoral payments	Nonprofit	Cost of product minus charges	18.3	
		Volunteer services	13.6	
			31.9	
	Insurance & pension funds	Pensions & profit sharing	33.0	
		Group health insurance	22.8	
		Workmen's compensation	8.2	
		Group life insurance	4.4	
		Supplemental unemployment	0.4	
		Other insurance	n.a.	
			68.8	100.7
Grand total				$937.6

hold sector by splitting off nonprofit institutions and insurance and pension funds. Of these, the in-kind category is by far the largest, encompassing vast amounts of government services, particularly for education, general consumption, and intermediate product given directly to households, or indirectly as ultimate components of final product. Our estimates of total in-kind transfers for which we were able to develop numbers came to $448.2 billion. These are transfers originating in business and, chiefly, in government. Other in-kind transfers to households by the nonprofit sector are classified separately.

The main items in our reclassification of NIPA payments for current goods and services are interest and dividends. Business interest payments to households may be taken to include both net interest and the consumer interest that has been netted out of gross interest payments. The total amount of NIPA payments for current goods and services reclassified as transfers comes to $194.4 billion.

Finally, the NIPA intrasectoral payments reclassified as transfers include $31.9 billion of nonprofit goods and services and $68.8 billion of transfers from insurance and pension funds to households, bringing the total for this category to $100.7 billion. The grand total in our expanded measure of net transfers to households is thus $937.6 billion, almost five times the corresponding NIPA transfers.

1.4 Other Transfer-like Items

Although the framework for transfers we have just discussed is broad, there is a great deal it does not encompass. First, it does not include the current value of real capital gains and losses, which we shall discuss in the next section. Second, it excludes "tax expenditures," which are in many ways similar in their effects, given the tax system, to direct transfers. We are not prepared to fit them into even our broadened framework at this time. We may at least stress the importance of the issue, however, by indicating the magnitude of tax expenditures as most recently estimated by the U.S. Office of Management and Budget (1982), shown in summary form in table 1.4. For fiscal year 1981, it will be noted, a simple addition (perhaps not quite warranted) of the OMB "outlay equivalent estimates for tax subsidies by function" comes to $272 billion.

Finally, also not included in our tabulations are perhaps the largest transfers of all, those within the household sector. Whether or not we are prepared now fully to account for them, we should recognize that many of the economic effects that we attribute to government transfers in fact may largely substitute for or be offset by private transfers within the household sector.[9] This applies most obviously to gifts and bequests, care of the

Table 1.4 **Outlay Equivalent Estimates for Tax Subsidies by Function (millions of dollars)[a]**

	Fiscal Years		
Function	1981	1982	1983
National defense	2,525	2,500	2,615
International affairs	3,835	4,600	4,930
General science, space, and technology	1,060	1,515	−220
Energy	8,475	8,830	8,800
National resources and environment	2,510	2,705	2,910
Agriculture	1,315	1,250	1,180
Commerce and housing credit	117,470	114,355	120,910
Transportation	65	70	105
Community and regional development	275	435	375
Education, training, employment, and social services	15,370	15,620	15,665
Health	25,110	26,895	28,135
Income security	64,070	70,295	72,850
Veterans benefits and services	1,605	1,685	1,660
General government	85	80	80
General purpose fiscal assistance	27,755	29,860	32,060
Interest	480	620	710
Sum	272,005	281,315	292,765

[a]From U.S. Office of Management and Budget (1982), pp. 28–30.

elderly, and care of the young. In addition, of course, there are hosts of other intrafamily and interhousehold transfers.

1.5 Net Revaluations: Capital Gains and Losses

We have yet to account for a major share of household sources of wealth and purchasing power. I refer to capital gains (and losses)

Capital gains are widely viewed as a reward to capital. The logic of including them as transfer income is in one way akin to that underlying our suggested inclusion of dividend and interest return on capital. Capital gains are clearly excluded from the category of payment for services to current production. In fact, however, they constitute a major component of appropriately defined income—of households, business, and government.

Capital gains and losses represent a substantial anomaly with respect to NIPA. Of course they are not included in NIPA. Yet, taxes on realized capital gains constitute subtractions from corporate and personal income. Hence, the higher realized capital gains are, the lower, for example, is disposable personal income.

Capital gains are not included in NIPA, either on the product or income side, because like transfers they are not viewed as corresponding to current production. I have argued elsewhere (Eisner 1980, inter alia) for application of a Hicks-Haig concept of income as that which can be consumed while keeping one's real wealth intact. On the assumption that one-for-one transformation is possible, we may implement this concept as the sum of consumption and net capital accumulation. We should then want to include net revaluations in net capital accumulation. For surely we are concerned with increases in the net *value* of capital. It should not matter, for the individual, firm, industry, or nation, whether the increases in value are from the acquisition or production of additional assets or to increases in the value of existing assets.[10]

It is important to remember that it is *net* revaluations which are relevant. To preserve real wealth intact, the nominal value of assets must rise by as much as the general price level or some other appropriate measure of prices. Where nominal values rise less than the general level, we in fact have capital losses. We should want to consider as capital gains only increases in the nominal value of assets, or ultimately of net worth, in excess of increases in the general price level.

One possible justification for excluding the value of capital gains from national income is that for the nation as a whole they may to a considerable extent be self-canceling. Those owning land and houses and owing on low-interest mortgage loans have proven to be substantial gainers over most of the last several decades in the United States. But then creditors, as such, and others have lost. In fact, there is good reason to expect that net revaluations will not sum to zero for the nation as a whole. Changes in terms of trade can create substantial gains or losses, as oil producing and exporting countries could easily testify, very happily at least until recently. And changes in interest rates may affect at least the income and wealth of the current year as against future years.

The arguments against including net revaluations in national income point all the more sharply to their role as transfers. Capital gains, in the sense of net revaluations as we have defined them, clearly give their beneficiaries command over goods, services, or resources. If they do not correspond to any current production, then they must be transfers. In terms of the broad concept of transfers we have suggested in this paper, even if they are viewed as properly part of net capital accumulation and hence part of net national income and net national product, we may view them as transfers because they are compensation or rewards not essential to current production.

Whatever their role in the aggregate, net revaluations bulk large in sector accounts and for particular classes of assets and liabilities. They hence bulk large as well for the individuals and groups to whom they relate.

It is immediately apparent in table 1.5, drawn from Eisner (1980),[11] that relevant numbers are substantial, though variable. Business net revaluations on land amounted to $80 billion in 1976 and $21 billion in 1977. Business net revaluations on structures and equipment were $46 billion and $31 billion in those years. Household and nonprofit institution net revaluations on land were $29 billion and $18 billion, while those on owner-occupied dwellings were $45 billion and $69 billion.

Net revaluations on financial assets and liabilities were significant. For business these came to $42 billion in 1976 and $4 billion in 1977. Very large government net revaluations were made on financial liabilities in 1977, amounting to $111 billion. These reflected essentially the depreciating real value of the government debt in the face of higher interest rates and higher prices and the depreciating value of non-interest-bearing Federal Reserve obligations in the form of Federal Reserve notes and member bank deposits as the price level rose.

Thus, households and nonprofit institutions lost heavily in their holdings of financial assets other than equities, suffering negative net revaluations of −$60 billion, in 1976. However, they gained $219 billion in that year on corporate and noncorporate equities. In 1977, they lost $56 billion on equity holdings (gaining $56 billion on noncorporate businesses but losing $112 billion on corporate equity) and $158 billion in financial assets other than equity. But they gained no less than $62 billion in net revaluations on their mortgage debt, as well as $21 billion on their other liabilities.

It is difficult to fit net revaluations into a set of accounts dealing with intersectoral transfers. In many cases the implicit transfers are intrasectoral. Increased value of business land may thus entail a higher cost in rents for business lessees. However, the increased value of business land and structures and equipment may also be viewed as a transfer to business

Table 1.5 **Net Revaluations: Capital Gains and Losses Net of General Price Level Changes (billions of dollars)**

	1946	1956	1966	1976	1977
Business, nonfinancial	−10.4	20.7	25.0	92.2	106.8
Land	−9.9	11.4	16.8	80.2	20.7
Structures & equipment	−5.4	4.9	−3.4	47.3	31.1
Inventories	4.7	.5	−4.2	−1.9	−3.1
Financial assets & liabilities	.2	3.9	15.9	−33.3	58.1
Business, financial	−7.0	−12.5	−9.0	74.0	−54.3
Land	−.0	.1	.3	.0	.2
Structures & equipment	.2	.1	.1	−1.0	−.2
Financial assets & liabilities	−7.0	−12.7	−9.3	75.0	−54.3
Business, total	−17.4	8.2	16.0	166.2	52.5
Land	−9.9	11.5	17.1	80.2	20.9
Structures & equipment	−5.4	5.0	−3.4	46.2	31.0
Inventories	4.7	.5	−4.2	−1.9	−3.1
Financial assets & liabilities	−6.8	−8.8	6.6	41.7	3.8
Government[a]	30.4	22.2	10.3	2.1	58.5
Land	−1.9	4.1	5.9	18.3	10.0
Structures & equipment	−4.1	1.9	−1.8	−22.0	−10.7
Inventories	−6.7	−1.3	−1.3	−.9	−1.8
Financial assets & liabilities	43.1	17.6	7.6	6.7	61.1
Financial assets	−16.9	−7.3	−8.0	−10.4	−50.4
Minus liabilities	−59.9	−24.8	−15.6	−17.1	−111.5
Households, Personal Trusts & Nonprofit Institutions	−85.3	.1	−106.7	219.4	−62.5
Land	−1.2	5.9	.5	29.2	18.2
Owner-occupied dwellings	−1.2	−5.1	−11.2	44.7	69.2
Durables	−8.4	−3.9	−7.6	−9.9	−18.4
Nonprofit fixed capital	.2	.3	.3	−1.9	−.8
Financial assets & liabilities	−74.7	2.9	−88.6	157.3	−130.7
Equities	−34.7	13.3	−69.4	218.8	−55.9
Plus other financial assets	−46.2	−21.9	−36.5	−60.4	−157.8
Minus mortgage debt	−3.6	−9.3	−12.6	17.2	−62.0
Minus other liabilities	−2.5	−2.2	−4.7	−16.1	−21.0

[a]Including government enterprises, federally sponsored credit agencies, monetary authority, and mortgage pools.

Numbers may not sum to totals because of rounding.

of claims to future product, at the expense of households who will have to pay more for the product. To those households with equity claims on business, there will be a corresponding positive net revaluation in the current year and shares of increased earnings in future years.

1.6 Conclusion

Even the rough estimates with which we have sketched in an expanded set of accounts for transfers have some interesting implications. We may, for example, think of transfers as reducing work incentives. To the extent that income is received in transfers rather than as remuneration for labor, the incentive to work may well be reduced. This reduction will of course be aggravated by the incidence of higher marginal taxes on labor to pay for the transfers. But to the extent that this may be a problem, government transfer payments in NIPA are only a small part of the problem. For there is much more in the way of transfers not in NIPA which would have a similar effect. Free education services transferred by government and households, as well as the taxes to pay for them, may discourage current labor. The opportunity for earnings in the form of interest, dividends, and capital gains may seriously depress the supply of labor for current output.

One may also trace significant effects of various other items which we would consider in a broader set of accounts for transfers. Interest and dividends may go disproportionately to saving. Net revaluations will generally constitute saving in a broader set of accounts. If saving is seen not as an increase in net worth but more narrowly as income minus taxes minus consumption, as in NIPA, positive net revaluations of households, by contributing to greater current consumption, will reduce the saving measured in NIPA.

As for effects on income distribution, no doubt the impacts of many of the items included in these broadened accounts would be very large. Private pensions, interest and dividends, and in-kind benefits from business, government, and nonprofit institutions may do as much for the welfare of the elderly as Social Security. Public education and health services, or their lack, may affect the welfare of the poor as much as unemployment benefits, aid to families with dependent children, and food stamps. Just how all of our expanded set of transfers affects appropriate measures of the distribution of income and of welfare is a matter which should be high on the agenda for future research.

Appendix A *Transfer Payments in NIPA and Subsidies Less Current Surplus of Government Enterprises, 1976–79*

Table 1.A.1 Government Transfer Payments to Persons (millions of dollars)

	Line	1976	1977	1978	1979
Government transfer payments to persons	1	186,353	199,315	214,607	239,949
Federal	2	158,761	169,570	181,806	204,923
Benefits from social insurance funds	3	121,539	132,187	142,133	160,299
Old-age, survivors, and disability insurance	4	74,501	83,239	91,380	102,581
Hospital and supplementary medical insurance	5	18,366	21,704	24,851	29,238
Unemployment insurance	6	14,809	11,981	8,978	9,406
State	7	14,280	11,533	8,612	9,100
Federal employees	8	310	274	175	163
Railroad	9	219	174	191	143
Railroad retirement	10	3,550	3,783	3,985	4,313
Federal civilian employees retirement	11	8,860	9,929	11,271	12,952
Civil service	12	8,723	9,768	11,094	12,741
Other[a]	13	137	161	177	211
Veterans life insurance	14	936	980	1,031	1,062
Workmen's compensation	15	517	571	637	747
Military retirement	16	7,696	8,503	9,428	10,647
Veterans benefits	17	13,399	12,802	12,812	13,336
Pension and disability	18	8,452	9,189	9,713	10,643
Readjustment	19	4,345	3,145	2,823	2,408
Unemployment	20	602	468	276	285
Other[b]	21	....	....	....	....
Food stamp benefits	22	4,598	4,394	4,585	6,311
Black lung benefits	23	981	972	1,038	1,726
Special unemployment benefits	24	975	680	163	....
Supplemental security income	25	4,631	4,743	4,920	5,321
Direct relief	26	....	....	....	....
Earned income credit	27	908	902	880	829
Other[c]	28	4,034	4,387	5,847	6,454
State and local	29	27,592	29,745	32,801	35,026
Benefits from social insurance funds	30	11,292	12,489	14,144	15,879
Government pensions	31	9,581	10,544	11,960	13,380
Temporary disability insurance	32	511	570	622	699
Workmen's compensation	33	1,200	1,375	1,562	1,800
Direct relief	34	12,840	13,439	13,606	14,058
General assistance	35	1,229	1,237	1,205	1,228

Table 1.A.1 (continued)

	Line	1976	1977	1978	1979
Other direct relief	36	11,611	12,202	12,401	12,830
Aid to families with dependent children	37	10,053	10,574	10,699	10,999
Other categorical public assistance[d]	38	1,558	1,628	1,702	1,831
Other[e]	39	3,460	3,817	5,051	5,089

[a]Consists largely of foreign service and Tennessee Valley Authority.

[b]Consists of mustering out pay, terminal leave pay, and adjusted compensation benefits.

[c]Consists largely of payments to nonprofit institutions and aid to students.

[d]Prior to 1974, consists of old-age assistance, aid to the blind, and aid to the permanently and totally disabled. In 1974, these programs were replaced by the Federal Supplementary Security Income (SSI) program. Beginning with 1974 consists of state benefits under the SSI program. Federal SSI benefits are shown in line 25.

[e]Consists largely of educational assistance, medical insurance premiums paid on behalf of indigents, veterans bonuses, other types of veterans aid, and foster care payments.

Table 1.A.2 Subsidies Less Current Surplus of Government Enterprises (millions of dollars)

	Line	1976	1977	1978	1979
Subsidies less current surplus of government enterprises	1	973	3,082	3,606	3,053
Federal	2	5,812	8,222	9,343	9,400
Subsidies	3	5,602	7,525	9,267	9,288
Agricultural	4	711	1,764	2,868	1,179
Housing	5	3,083	3,515	4,145	5,253
Maritime	6	501	526	533	580
Air carriers	7	73	83	72	77
Other[a]	8	1,234	1,637	1,649	2,199
Less: Current surplus of government enterprises	9	−210	−697	−76	−112
Postal service	10	−1,647	−2,062	−1,402	−1,266
Commodity Credit Corporation	11	−185	−311	−762	−1,199
Federal Housing Administration	12	190	184	198	218
Tennessee Valley Authority	13	465	591	649	878
Other[b]	14	967	901	1,241	1,257
State and local	15	−4,839	−5,140	−5,737	−6,347
Subsidies	16	189	210	239	327
Less: Current surplus of government enterprises	17	5,028	5,350	5,976	6,674
Water and sewerage	18	1,533	1,480	1,718	1,976
Gas and electricity	19	1,896	2,077	2,391	2,717
Toll facilities	20	814	848	882	908
Liquor stores	21	408	421	448	444
Air and water terminals	22	591	696	794	874
Housing and urban renewal	23	639	670	677	673
Public transit	24	−1,192	−1,304	−1,561	−1,654
Other[c]	25	339	462	627	736

[a]Consists largely of subsidies to exporters of farm products and to railroads.

[b]Consists largely of Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, and Bonneville Power Administration.

[c]Consists of state lotteries, offtrack betting, local parking, and miscellaneous activities.

Table 1.A.3 **Business Transfer Payments (from unpublished BEA worksheets) and Transfer Payments to Foreigners (from NIPA table 4.1) (millions of dollars)**

	1976	1977	1978	1979
Business transfer payments	7,920	8,157	8,665	9,443
Corporate gifts to nonprofit associations	1,477	1,507	1,540	1,570
Consumer bad debts	2,452	2,584	2,801	3,085
Auto liability for personal injury	2,797	3,119	3,438	3,760
Railroad & miscellaneous liability payments	15	13	18	17
Medical malpractice liability	845	564	642	720
Unrecovered thefts	147	158	188	225
Cash prizes	55	63	74	84
Losses due to forgeries	132	149	164	182
FOA's	—	—	−200	−200
Transfer payments to foreigners	4,133	4,105	4,555	5,166
From persons (net)	917	859	798	955
From government (net)	3,216	3,246	3,757	4,211

Appendix B *Transfers in the Total Incomes System of Accounts*

A complete description of sources and methods for imputing product of government viewed in this paper as transfers is in Eisner and Nebhut (1981). Expanded measures of government output estimated there included imputed values of the services of government capital, uncompensated factor services of military draftees and jurors, and net revaluations, as well as the usual compensation of employees. Government output was allocated to consumption, capital formation, and product intermediate to other sectors on the basis of classification in ten broad functions: defense, space research, education, health, sanitation, transportation, parks and recreation, natural resources, welfare, and general administration.

Government output of consumption services, viewed as transfers to households, include half of the final product of the space function related to manned space flights, half of health and sanitation services functions, a portion of transportation, all of the product of local parks and recreation services, and all the output of "welfare." All of the final product of education and half of the final product of health are viewed as capital accumulation transferred to households. Government-funded, private research and development expenditures are viewed as capital accumulation transferred to business. The bulk of defense services (except R & D), half of sanitation services, a portion of transportation services, and all of general administration are viewed as intermediate product, transferred to households and to business.

An imputation for the consumption value of media services is viewed as a business transfer to households. This is calculated, following work of Cremeans (1980), on the basis of the proportions of media expenses not devoted to advertising or promotion. Business transfer payments also include the value of business health and safety programs, based on an extension of data and methods in Kendrick (1976). The value of volunteer services is estimated by applying the average time spent in volunteer activities by those aged fifteen and over, obtained from Szalai (1972), to the average hourly earnings rate of nonsupervisory workers in service industries.

Notes

1. Also included in NIPA are government and personal transfer payments to foreigners. Breakdowns of all transfer payments in NIPA for the years 1976–79 are in appendix A.

2. See the papers by Smeeding and by Olsen and York in this volume for discussion of measures of the value of in-kind transfers.

3. Rolph (1948); and Hagen and Budd (1958), for example, have raised this question. But cf. Jaszi (1958), especially pp. 115–19.

4. As presented in Eisner and Nebhut (1981); and Eisner, Simons, Pieper, and Bender (1982).

5. We have no estimate of the unincorporated business portion of personal income taxes and have hence left them with personal taxes.

6. Weidenbaum (1978) estimates total interest subsidies in federal credit programs at $6,443 million in fiscal year 1975.

7. Cf. Boulding (1973), pp. 54–57.

8. Private pension funds, exclusive of Keogh funds and IRA's, received contributions of $47.1 billion in 1977, of which $41.7 billion were employer contributions. They paid benefits of $20.1 billion directly to retirees and $2.8 billion to insurance carriers (U.S. Department of Labor 1981).

9. See paper by Morgan in this volume and a number of the papers cited there for discussion of wide-ranging aspects of private transfers.

10. Cf. Ruggles and Ruggles (1980), especially pp. 24–26, 60, 66.

11. See also Eisner, Simons, Pieper, and Bender (1982); and Eisner and Pieper (1984). The latter paper focuses on net revaluations in a context of measurement of government net worth, net debt, net deficit, and net real interest payments.

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