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# Proposal for a Revised Set of Summary Accounts and Supporting Financial Details

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THE announced topic of discussion for this Conference, national income estimates, seems to have been given two rather different interpretations. On the one hand Morris Cohen and Martin R. Gainsbrugh and Kenneth D. Ross, among others, devote their attention chiefly to the use of national income and product data in current aggregative economic analysis. On the other hand, Raymond T. Bowman and Richard A. Easterlin, Everett E. Hagen and Edward C. Budd, and some other authors emphasize longer-run considerations. Cohen and Gainsbrugh point out that gross national product and disposable income rather than national income are the global aggregates most widely used in current business analysis; and they consider rather extensively the improvements needed in sector and other detailed information. Those who have adopted the longer-run view of our topic have been mainly concerned with refining the global concept of national income conceived as a total of factor cost and refining the global concept of net national product conceived as a total that is as free as feasible of any double counting of product. Certainly these refinements promise to contribute significantly to some types of long run analyses and to some types of analyses involving inter-country comparisons too. But this should not lead us to neglect—as I think some of the speakers have—the long run usefulness of gross national product measures—particularly measures of deflated GNP—and of more satisfactory sector data.

Most speakers have taken national income estimates to mean the estimates of the National Income Division, and in proposing changes in the national income and product accounts have in effect proposed projects they would like to see provided for in the NID budget. In this connection I think it is appropriate to suggest a somewhat broadened application of a point made in John W. Kendrick's paper. With reference to the proposal to compute real national product at constant factor cost he says, "This type of experimental project is . . . eminently suitable for private individuals or research groups." I would enlarge Kendrick's comment to make it apply to most experimental computations covering a historical retrospect of say twenty years or more that are substantial undertakings.

Certainly the NID when it was designing the present system of national income and product accounts, gave heavy weight to considerations pertaining to their longer-run significance. And certainly in making decisions regarding changes in these accounts, it should continue to give heavy weight to such considerations. But in general an experimental statistical compilation in which recent figures are of no special importance or which has no clear and immediate policy implications—and this includes most of the longer-run proposals before us—is appropriately a private research undertaking. On the other hand it seems reasonable to hope that the NID will take some steps in the general direction proposed by Cohen and Gainsbrugh—steps toward strengthening and expanding the current releases and toward disaggregation. This direction seems eminently appropriate for a government agency. Still, it must be admitted that the size of the Cohen and Gainsbrugh order is quite overawing.

I should like to offer some suggestions regarding three financial transaction items in the national income and product accounts for quite modest moves in the Cohen and Gainsbrugh direction. Also I should like to propose some changes in the method of presenting the system of accounts that should appeal to both business and academic users. These changes would entail no computation costs of any consequence.

The three financial items are: (1) personal saving, (2) an implicit item that will be referred to as corporation outside funds, and (3) the government deficit. It may be objected that (1) and (3) are only implicitly financial transaction items, and that (2) is only in the accounts by implication. But the implication in each case is so clear and inescapable that it seems appropriate to speak of three financial transaction items in the accounts.

### PERSONAL SAVINGS

In his suggestions, Raymond W. Goldsmith gives top priority to Gainsbrugh's proposal for a breakdown of this item (and of total personal income and expenditure) into four subsector components. I emphatically agree that some such disaggregation of personal saving is urgently needed. However, what I would like to suggest is two quite short part-way disaggregation steps. One of them could be taken in publishing the 1955 figures; it would involve no extra work. Table 6 of the national income and product accounts now no longer takes the form of a technical reconciliation between personal saving and the Securities and Exchange Commission saving estimates. Instead the SEC figures are rearranged to provide a direct estimate of personal saving. I would propose dropping the residual computation and entering the direct (SEC basis) estimate in the NID Accounts III and VI. This would mean a statistical discrepancy in the personal account (see the NID Table 6 line 34); also the statistical discrepancy in the S and I account would become a combination of this personal account discrepancy and that in the national income and product account (or minus line 37 of Table 6).

The second step is a bit more difficult. Present Table 6 resolves the direct estimate of personal saving into four main components, three of which can be regarded as crude subsector components. I would propose pushing this table in the direction of a clean-cut four-subsector analysis. The four subsectors I would propose are: (i) families and single individual consumers; (ii) farm enterprises; (iii) other unincorporated enterprises, including lessorships; (iv) private nonprofit institutions. For each of these four subsectors the elaborated Table 6 should aim to show the following items (except where they are inapplicable):

a. Gross capital formation

b. Increment in financial assets held

c. Capital consumption allowances

d. Increment in debt

e. Increment in business proprietorship equity (including the inventory valuation adjustment).

In general this would involve; first, the analysis of the cash increment items, the portfolio increment items, and the item, increase in debt not elsewhere classified, by the four subsectors; and second, adding intrasector, intersubsector debt transactions. (a) Gross capital formation, (c) capital consumption allowances, and most of (d) increment in debt are already pretty much on the four-subsector basis; and (e) the increments in the business proprietorship equities for the two enterprise subsectors would presumably be residual computations.[1]

I have been prompted to make this proposal by the publication in the October *Federal Reserve Bulletin* of a summary table of moneyflows or flow of funds accounts for 1939-1954 and the promise of early publication of the detailed tables. The release of these Federal Reserve figures should make it easier to give a four-subsector analysis in Table

[1] For the subsectors here proposed it would be necessary to show owner-occupant and lessor residential construction separately, and to give this break also for the increase in residential mortgage debt.

6. I think this publication also adds significantly to the urgency of some such move and helps to specify the precise nature of the move that is desirable.

It should be easier to give a four-subsector analysis in Table 6, because the Federal Reserve social accounts include estimates of financial asset increments and debt increments (including intersubsector debt transactions) for three of the four subsectors.[2] And if no better course is available, the figures for subsector iii, other unincorporated enterprises including lessorships, can be estimated residually.

The national income and product accounts and the Federal Reserve flow of funds accounts are so related conceptually that it would be extremely unfortunate, in fact intolerable, if no effort were made to spell out in figures the relations between them. The Federal Reserve has been at some pains to do a good deal of this kind of spelling out, and I am sure it feels obligated to do more of it in the not distant future than proved feasible in this first published edition of its social accounts. No doubt the Board as the newcomer in the field of social accounting has the greater responsibility for integrating the two sets of accounts, but, I think, the obligation is a mutual one. Since the Federal Reserve accounts are concerned mainly with financial transactions, only incidentally with income and product transactions, and the national income and product accounts deal only incidentally or inferentially with financial transactions, each agency is best able to elaborate the meaning of its own figures in the area emphasized by the other. Such elaboration is what spelling out the relations between the two social accounting systems involves, and a four-subsector analysis in Table 6 would be an elaboration of this sort. It would bring out the financial transactions that are implicit in personal saving.

### CORPORATION OUTSIDE FUNDS

My proposal in regard to the financial transactions of private corporate enterprises is presumably a special case of Raymond W. Goldsmith's recommendation that the national income and product accounts should include an S and I account for each sector. But this recommendation has a rather special meaning for the private corporation sector that, I think, should be clearly and separately stated.

The S and I account for this corporate sector should be somewhat like what I have above proposed showing in Table 6 for farms and for

[2] Separate figures for subsector iv private nonprofit institutions are not disclosed in the summary table so far published, but I understand they will be in the detailed tables. Instead of giving figures for subsector iii, the Federal Reserve accounts give figures for unincorporated nonfarm, nonfinancial enterprises.

other unincorporated enterprises, also somewhat like the capital formation account (Account 3) which replaces the consolidated national S and I account in the system of social accounts recommended by a committee of experts as an international standard set (in United Nations document ST/STAT/ SER.F/No. 2). This account should include (a) gross capital formation, (b) increment in financial assets held, (c) capital consumption allowances, (d) increment in debt, and (e) increment in business proprietorship equity. Item (e) should be subdivided into (f) retained corporate income (including the inventory valuation adjustment), and (g) stock issues less retirements. But (g) might be combined with (b) and (d) in an item I here call corporation outside funds, that is, outside funds = (d) + (g) — (b). This is in contrast to the inside funds item, (c) + (f).

I have said that a figure for corporation outside funds is implicit in the system of national income and product accounts. It is. But it is not a very good figure. It is a residual computed as follows:

> Gross expenditures on new construction and equipment less such expenditures (SEC figures in Table 6) by noncorporate enterprises plus the inventory increment (Table 33 line 5) minus retained corporate income (Table 1 lines 21 + 22) and minus corporation capital consumption allowances (Table 4 line 2 minus the SEC figures for noncorporate enterprises in Table 6) equals corporation outside funds.

My second proposal is that this implicit figure for corporation outside funds or some improvement on it be made explicit in the national income and products accounts.

Three main ways to improve this computation suggest themselves.

First, corporation capital consumption allowances should be computed by deducting more than the noncorporate SEC depreciation figures in Table 6. Something should be deducted too for anticipated accidental damages of unincorporated enterprises and for noncorporate capital outlays charged to current expense.

Second, this residual computation does not give a perfectly clean financial transaction figure, for it includes also sales less purchases of existing capital assets. This small item might well be estimated and shown separately.

Third—and this is the really important step—the Department of Commerce should surely be able to provide a direct, instead of a residual, figure for the corporate S and I account, that is, to spell out the financial transaction components of corporation outside sources of funds.

### GOVERNMENT DEFICIT

This item is shown in Account IV of the *National Income Supplement, 1954,* as a source of funds. Of course the source of funds here is really the net borrowing by government to meet the deficit.

Time was when the NID gave us each year a reconciliation statement for the federal government which explained quantitatively the relation between the federal deficit on account of national income and product transactions and the Treasury's figures on government debt and general fund balance. Last year Marilyn Young gave us a translation from national income and product account receipts and expenditures to cash operating income and outgo (now called cash deposits and withdrawals, other than debt).[3] This is helpful, if one attempts to construct for himself a translation from the income and product account deficit to the Treasury figure, net cash borrowing from the public. But the National Income Division should give us such a translation each year. I urge the reinstatement of this practice.

There is an analogous translation problem of relating the state and local deficit on account of income and product transactions to Department of Commerce figures on state and local debts. It is not a comparably urgent problem; but I venture to hope it is a problem that will be solved sometime in the next few years.

My suggestions for all three of the financial transaction items in the national income and product accounts look toward connecting up what we know about what is happening to production, income, and aggregate demand in our economy and what is happening in the financial sphere. The suggestions relating to personal saving and corporation outside funds also seek to organize our information about final product purchases and the way they are financed in terms of sectors made up of whole decision making units—business corporations, unincorporated enterprises, families and single individuals, private nonprofit institutions.

Most economists concerned with analyzing the current business situation and the business outlook have learned that it is particularly illuminating to put the analysis in terms of the system of national income and product accounts. There is reason to think that as these accounts move toward bringing out relations between product facts and financial facts and toward presenting figures for sectors that are group-

[3] See also various issues of the *Economic Report of the President,* for a summary translation of this type.

ings of decision-making units, their usefulness in current business analysis will be substantially enhanced. But this means pushing the quarterly as well as the annual figures in these directions. A modest step forward in the quarterly release would be a separate account for the federal government.

### A NEW SET OF SUMMARY ACCOUNTS

So much for changes designed to help bring out the financial transactions that are implicit in the national income and product accounts. Now as to the method of presenting these accounts as a system.

Most people, including graduate students of economics, when they first encounter the six Roman numeral accounts and the forty-one Arabic numeral annual tables that follow them in the NID's presentation, are baffled, if not overpowered. There are so many trees—some of them with slippery names like space rent and rental income of persons—that they have great difficulty in envisioning the shape of the forest. They have great difficulty, too, in relating the accounts to what they have learned about aggregative economic theory.

Perhaps this sounds as if I were about to propose cutting down on the amount of detail shown. Actually except for two quite minor items I would not like to see any details suppressed. Rather my proposals relate mainly to the six Roman numeral accounts.[4] I would like to see these summary accounts streamlined by substituting a number of item groupings for individual items. But I would add three accounts that would provide an analysis of the gross S and I account. Also I would change the rest of the world account along the lines suggested by Hagen and Budd. And I would drop Account II, consolidated business income and product account.

The right hand side of Account I, the national product account, shows final product sales by sectors. It is urged that the left hand, or disposition of proceeds, side of the account should play up the recipient sectors. It might begin with national income and the adjustments to this aggregate needed to arrive at the proceeds accruing to persons from United States production—take-home pay, interest, dividends, noncorporate profits, and so forth. A second section of this side of the account might show proceeds accruing to government from United States production—indirect and corporate income taxes, contributions for social insurance, and so forth (see Account I in Exhibit A).

The three accounts into which I would propose to analyze the gross S and I account are—the private corporation S and I or capital account,

4 See for example *National Income Supplement, 1954, Survey of Current Business*, Dept of Commerce, pages 160-161.

the private noncorporate S and I or capital account, and the intersector net financial transactions account. This three-way analysis would help to implement the suggestions made above regarding financial transactions. As a corollary of this three-way analysis the left hand side of the national product account should show four main items—proceeds to persons and proceeds to government as already noted, inside corporate funds, and noncorporate capital consumption allowances.

With this three way analysis added to the Roman numeral accounts the system would include five ultimate purchaser sectors, each consisting of one or many independent final-demand, decision-making units. In addition to the present three sectors (whose demand decisions are reflected in present Accounts III, IV, and V) there would be private corporate enterprises and other private enterprises.[5] It is suggested that each of these five sector accounts show only a single summary GNP demand item, leaving details to be covered by Tables 9, 11, and 30 through 33. Also, assuming the sector grouping of the proceeds items in the national product account, a single summary proceeds figure might well be given on the right hand side of each of the four domestic final purchaser sector accounts (items 1, 2, 3 and 4 in Exhibit A).

Each of the two new sector accounts (the private corporation and private noncorporate capital accounts) would consist of three items.[6] On the left there would be gross capital formation. On the right the corporate account would show inside funds and outside funds; the noncorporate account capital consumption allowances and net new capital funds (see Accounts VI and VII in Exhibit A).

There would be six items in the financial transactions account—a single net summary item for each of the five ultimate purchaser sectors and a statistical discrepancy (see Account II).

The present rest of the world account consists of three main items:

a. Net disinvestment in the United States

b. Gross product of the United States originating outside the United States

c. Net purchases by the rest of the world from the United States

Since (b) is a self-contradictory concept, and (c) is not what it sounds like —not the export surplus—it is scarcely strange that there is wide dissatisfaction with this account.

An international committee of experts proposed (in United Nations

[5] Including nonprofit institutions and prospective owners of owner-occupied nonfarm dwellings.

[6] Or four, if net transactions in existing capital assets can be shown separately.

*EXHIBIT A*

*Suggested Revised Set of Summary National Income and Product Accounts*

ACCOUNT I—National Income and Product Account, 1953
(*billions of dollars*)

Uses of Funds

| | | | |
|---|---|---|---|
| | 1a National income | 305.00 | |
| *less* | 1b Undistributed corporate profits and inventory valuation adjustment | 7.96 | |
| *less* | 1c Corporate profits tax liability | 21.14 | |
| *less* | 1d Contributions for social insurance | 8.75 | |
| *less* | 1e Net distributive shares from abroad | 1.50 | |
| *plus* | 1f Business transfer payments | 1.02 | |
| *equals* | 1 Proceeds accruing to persons from U.S. production | | 266.66 |
| | 2a Undistributed corporate profits and inventory valuation adjustment | 7.96 | |
| *plus* | 2b Corporate capital consumption allowances | 13.89 | |
| *equals* | 2 Inside corporate funds | | 21.85 |
| | 3a Corporate profits tax liability | 21.14 | |
| *plus* | 3b Contributions for social insurance | 8.75 | |
| *plus* | 3c Indirect business tax and non-tax liability | 30.04 | |
| *plus* | 3d Current surplus of government enterprises minus subsidies | 0.53 | |
| *equals* | 3 Proceeds accruing to government from U.S. production | | 60.46 |
| | 4 Noncorporate capital consumption allowances | | 13.34 |
| | Total proceeds from U.S. production | | 362.31 |
| | 5 Statistical discrepancy | | 1.05 |
| | Total charges against GNP sales | | 363.35 |

(*other side of account on facing page*)

ACCOUNT II—Net Financial Transactions Account, 1953[a]
(*billions of dollars*)

| Uses | | Sources | |
|---|---|---|---|
| 6 Net funds raised by corporations | 5.30 | 12 Personal saving | 21.20 |
| 7 Net new capital funds of unincorporated enterprises | 10.92 | 16 Government surplus | —6.63 |
| 8 Net foreign investment | —1.87 | 5 Statistical discrepancy | —0.21 |
| Net total financial uses of funds | 14.35 | Net total financial sources of funds | 14.35 |

[a] Includes net intersector transactions in existing assets.

*EXHIBIT A*

*Suggested Revised Set of Summary National Income and Product Accounts*

ACCOUNT I—National Income and Product Account, 1953

*(billions of dollars)*

| | | Sources of Funds |
|---|---|---|
| 9 | Personal consumption expenditures | 229.85 |
| 13 | Government GNP expenditures | 79.00 |
| 17 | Gross private domestic capital formation | 51.41 |
| 18 | Export surplus | 3.09 |
| | Total GNP sales | 363.35 |

*(other side of account on facing page)*

ACCOUNT III—Gross Savings and Investment Account, 1953[a]

*(billions of dollars)*

| | Uses | | | Sources | |
|---|---|---|---|---|---|
| 17 | Gross domestic capital formation | 51.41 | 2 | Inside corporate funds | 21.84 |
| 8 | Net foreign investment | —1.87 | 4 | Noncorporate capital consumption allowances | 13.34 |
| | | | 12 | Personal saving | 21.20 |
| | | | 16 | Government surplus | —6.63 |
| | | | 5 | Statistical discrepancy | —0.21 |
| | Total uses of funds | 49.54 | | Total sources of funds | 49.54 |

[a] This account is a consolidation of Accounts II, VI, and VII.

ACCOUNT IV—Personal Account, 1953

(*billions of dollars*)

| Uses | | Sources | |
|---|---|---|---|
| 9 Personal consumption expenditures | 229.85 | 1 Proceeds accruing from U.S. production | 266.66 |
| 10 Personal tax and non-tax payments | 35.97 | 19 Net distributive shares from abroad | 1.50 |
| 11 Net personal remittances to abroad | 0.23 | | |
| 12 Personal saving | 21.20 | 14 Government transfer payments and net interest | 17.83 |
| 5b Statistical discrepancy | —1.26 | | |
| Total | 285.99 | Total personal income | 285.99 |

ACCOUNT V—Government Account, 1953

(*billions of dollars*)

| Uses | | Sources | |
|---|---|---|---|
| 13 GNP expenditures | 79.00 | 3 Proceeds accruing from U.S. production | 60.46 |
| 14a Net interest | 5.04 | | |
| 14b Transfer payments to persons | 12.79 | | |
| 15 Net transfer payments to abroad | 6.23 | 10 Personal tax and non-tax receipts | 35.97 |
| 16 Government surplus | —6.63 | | |
| Total uses of funds | 96.43 | Total sources of funds | 96.43 |

ACCOUNT VI—Private Corporation Capital Account, 1953

(*billions of dollars*)

| Uses | | Sources | |
|---|---|---|---|
| 17a Total gross capital formation | 27.14 | 2 Inside funds | 21.85 |
| | | 6 Funds raised | 5.30 |
| Total uses of capital funds | 27.14 | Total capital funds | 27.14 |

ACCOUNT VII—Private Noncorporate Capital Account, 1953

(*billions of dollars*)

| Uses | | Sources | |
|---|---|---|---|
| 17b Total gross capital formation | 24.26 | 4 Capital consumption allowances | 13.34 |
| | | 7 Net new capital funds | 10.92 |
| Total uses of capital funds | 24.26 | Total capital funds | 24.26 |

ACCOUNT VIII—Rest of the World Account

(*billions of dollars*)

| Uses | | Sources | |
|---|---|---|---|
| 18 Export surplus | 3.09 | 11 Net personal remittances from U.S. | .23 |
| 19 Net distributive shares to U.S. | 1.50 | 15 Net grants from U.S. government | 6.23 |
| | | 8 Net foreign investment of the U.S. | —1.87 |
| Total uses of funds by R of W | 4.59 | Total R of W sources of funds | 4.59 |

document ST/STAT/SER.F/No. 2) a vastly better way to set up the rest of the world account. Since the chief of the National Income Division of this country was a member of that committee, it seems reasonable to hope, along with Hagen and Budd, that the committee's recommendation for an improved international account will shortly be adopted (see Account VIII in Exhibit A).

The present system of six summary accounts gives certain details on gross national product by sector of industrial origin cross-classified by purchasing sector (Account II, consolidated business income and product account, and the purchases sections of the personal, government and rest of the world accounts). These details are omitted in Exhibit A. However, it is not proposed that they be suppressed; only that they are not of sufficient importance to be included in the summary accounts. Instead it is suggested that this information be carried in the Arabic numeral tables (presumably in Tables 12 through 24). Indeed it would seem desirable that these tables should give a little more by way of sector analysis than is now provided, that gross national product should be detailed by at least the following six sectors of origin: federal government, state and local governments, private households, nonprofit institutions, corporate business, and other private enterprises.[7]

By way of summarizing my suggestions—and perhaps making them more precise as well—I offer a recasting of the Roman numeral accounts for 1953. There are a few more items in my Account I than at present if recapitulations are counted as items, but the recapitulations make the table more readable.[8] My Accounts II, VI, and VII call for only one further comment here. When they are consolidated the result is the gross savings and investment account. This account is essentially the same as the present Account VI, except that the direct estimate of personal saving is shown and the statistical discrepancy (a credit item) is consequently equal to the sum of the debit discrepancies in proposed Accounts I and IV. But substitution of sector summary figures for more detailed and more technical items makes the account a good deal easier to understand.

Although the amount of detail in the personal account and in the government account is substantially reduced, there are some new items. In addition to the discrepancy in Account IV there are net personal remittances to abroad and net distributive shares from abroad. And in

[7] It might be advisable to present somewhere for an illustrative year, perhaps in Part II of the *National Income Supplement*, a table that would tie Tables 13 through 24 together by cross classifying national income (or a more inclusive total) by industrial sectors and types of distributive share.

[8] Technically the total in this table should be labelled "gross domestic product." Nonetheless I would strongly urge retaining the caption "gross national product."

Account v there is net transfer payments to abroad. Counter-entries for all three of these items appear in Account viii. And since the unilateral transfers in that account are now treated as unilateral transfers, item 18 is the export surplus.

As already intimated there are two quite minor items I would like to see suppressed. These are the items showing excess of wage accruals over disbursements for government and for business. Presumably their purpose is to provide a refinement of the concept, personal income, by putting the wage and salary component of this aggregate on a cash rather than an accrual basis. If so, it is hard to see why the government excess of wage accruals item does not reflect the large amounts of pay of the armed forces left on deposit with the government during the war. As the two items stand the refinement they provide may fairly be said to be of negligible consequence. They are literally more bother to the user than they are worth, and I would propose dispensing with them. They have been dispensed with in my Account iv. The $285.99 billion there shown differs from the figure for personal income in the *National Income Supplement, 1954,* by the amount of the excess of wages accruals over disbursements.[9]

Perhaps the most important single advantage of the proposed accounts is that the streamlining of the items is such as to bring out the way the accounts interlock. Even without the item numbers it is easy to see what can only be laboriously demonstrated with the present six accounts. The proposed Accounts i, ii, and iv through viii constitute a system in which each item appears twice (and only twice), once as a source of funds in one account and once as a use of funds in some other account.

[9] A negative item in 1953.