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PART II

REDISTRIBUTIVE MECHANISMS

CHAPTER 2

Social Accounting for Transfer

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What is the nature and scope of the "system" for redistribution—that set of positive and negative transfers, some public and some private, some in the form of money and some nonmoney—in the contemporary political economy of the United States? What kind of social accounting for that system could serve best the task, as Paul Fisher sees it, of "devising a more rational ordering of priorities among competing demands for programs directed to the betterment of society?"[1] Can the economic accounts be revised to show us more about redistribution, in order, as Arthur Okun puts it, to "evaluate the extent to which our society fulfills its egalitarian objectives."[2]

This paper is addressed to these questions and has been written in the belief that the broad frame of the national income and product account, and of the sectoral income and outlay accounts, is necessary to (though not sufficient for) a full appreciation of the transfer process. At the same time, I find that some revised sectoring and additions to the list of transfers in the official accounts would clarify the response to the questions stated above. That such revision may be necessary will not surprise those who have been taught that the income and product account's representation of the nation as a coherent behavioral entity is restricted in scope to the goods and services "throughput" of the market sector of the economy. All would agree with Edgar S. Dunn, Jr., that there are policy and management issues for which this account does not yield an appropriate set of integrated statistics.[3]

[1] Paul Fisher, "Social Reports of the German Federal Republic, 1970-71," *Social Security Bulletin* (July 1972):16.

[2] Arthur Okun, "Social Welfare Has No Price Tag," *Survey of Current Business* 51, no. 7, part 2 (July 1971):133.

[3] Edgar S. Dunn, Jr., "The National Economic Accounts: A Case Study of the Evolution Toward Integrated Statistical Information Systems," *Survey of Current Business* 51, no. 7, part 2 (July 1971):49.

However, I move cautiously in suggesting revisions, seeking to follow George Jaszi's guideline that changes should be based upon a clear perception of fundamental historic processes and useful predictive processes rather than upon "the fancies of isolated research subcultures."[4] I recognize limitations in the one-year accounting period but see merit in the discipline of the double-entry system and in the paradigm of the circular flow of spending and income in which—to paraphrase Kendrick—the "final" production of goods and services that men want gives rise to the primary income flows which, together with income redistribution, provide the incomes that the various sectors and subsectors spend and invest either directly or through financial or other types of intermediaries.[5] I accept the distinction, which is implicit in the accounts, between transfer receipts and income generated by production, and the separation of secondary or redistributive flows from primary or distributive ones. I seek to improve analysis of the transfer process while retaining the basic frame of the accounting system. It is my belief that this offers the best hope of understanding how our political economy answers several interlocking questions: Who gets the product? What is the composition of that product? What is the level of activity?

In the discussion that follows, we first look at how the existing system of accounts portrays the process of transfer. Second, we suggest how a more inclusive identification of transfer and consequent additions to GNP, and some deconsolidation of the household sector, would modify that portrayal. Third, we explore the issues involved in going inside a family sector to find how positive and negative transfers may affect the sharing of final income.

Two disclaimers must be put forward. The transfers we are studying are identified with, and are a part of, a particular institutional setting within which individuals act and react, and economic accounting offers us little insight into the modifications of price, effort, saving, and family responsibility which might follow from a change in transfers. Hence, the counterfactual of an income distribution which would exist in the absence of transfer, or with a very different scheme for transfer, is scarcely a credible

[4] George Jaszi, "An Economic Accountant's Ledger," *Survey of Current Business* 51, no. 7, part 2 (July 1971):227.

[5] John W. Kendrick, *Economic Accounts and Their Uses* (New York: McGraw-Hill, 1972), p. 21.

concept. The other caution is that economic accounting cannot pierce the money veil and tell us whether transferring increases the community's total of satisfactions or welfare. Perhaps, however, better recording of such transfers will stimulate further research into these questions, which accountants can suggest but cannot answer.

I. TRANSFERS IN EXISTING SYSTEM OF ACCOUNTS

To begin with, let us see how far the present income and product account, and the income and outlay accounts for the several sectors, take us in our pursuit. A transfer is generally defined as a payment or receipt for which less than fully reciprocal specific payment is made or good or service is exchanged in the current period. The payment may be voluntary or coerced. This means that all taxes are transfers, as are gifts and, it may be argued, insurance contributions intended to benefit third parties. Transfers may be received via government agencies or private intermediaries or directly from a personal giver in the form of an interfamily transfer. Conversely, negative transfers may be made from any sector to another.

The statement of national product, of course, shows no trace of transfer—only the purchase of final product by sectors. We can loosely translate that purchasing as consumption by households, investment by business, and public use by government. The parallel income statement, however, reveals what we will identify as transfers to be an important component of charges against the gross national product. Those transfer items that involve the business sector as a payer or receiver include the following nonfactor charges: indirect business taxes, subsidies to business, current losses of government enterprises, and business transfer payments to households (which comprise write-off of consumer bad debts and contributions to philanthropic organizations). Business transfers also include three factor-cost items: corporate profit taxes, employer contributions for social insurance, and similar contributions for private insurance (carried under the heading "other labor income").

To find other transfer items, one must look to secondary flows recorded in the sectoral accounts, but not in the national income and product account. These are nonbusiness items and include personal tax and nontax payments and personal contributions for social insurance (but not those for private insurance), and government transfer payments to persons. They also include net interest paid by government and interest paid by consumers; these, for several reasons, I would elect to leave out of the list of transfer items. Net interest paid by government is considered a transfer, since it is largely a payment for service on a debt incurred in past wars and, hence, has no counterpart in current product. Consumer interest is justified as other than primary income because no imputation to product is made for the services of lenders. Both of these items seem to defy the ordinary definition of transfer in the sense that the *recipients* have supplied a reciprocal service in the current period. For this reason, I would elect to leave them out.

The transfer items now recorded in the accounts, aside from the two mentioned, may be related systematically to one another in the fashion shown by Table 1. In it are enumerated the items listed above and the movement of each across sectors. In this simplified version, I leave out "the rest of the world" and assume that business is the only employer. Transfers flow from and to the business sector, as well as from and to governments and

TABLE 1 Transfers (Positive and Negative) by Sector

	Sectors		
Transfer Item	*Business*	*Government*	*Households*
Charges against GNP			
Indirect business taxes	–	+	
Subsidies to business	+	–	
Current loss of government enterprises	+	–	
Business transfer payments to households	–		+
Employer contributions for social insurance	–	+	
Other labor income	–		+
Corporate profits tax	–	+	
Other than charges against GNP			
Personal tax and nontax payments		+	–
Personal contributions for social insurance		+	–
Government transfer payments to persons		–	+
Balancing			
Transfer receipts less transfer payments	–	+	–

households. Households are defined to include not only families but insurance carriers and philanthropic organizations such as churches, private schools, and charitable foundations. The system of transfers reflected in the table does not produce a balance of transfers paid and transfers received, since there is no requirement that transfer receipts must be respent for transfer purposes. In particular, government will ordinarily spend its receipts of transfers largely for purchases (none of which is now identified as transfer to other sectors). The flow of transfer is back and forth among the sectors, with governments serving as intermediary. Transfers may be seen as emerging out of the primary income in the form of business receipts from the sale of final product. This primary income less capital consumption is disbursed to the nonbusiness sectors, some of it as transfer (as shown in Table 1) and some of it as nontransfer (not shown). The transfer and nontransfer income of the nonbusiness sectors is, in turn, moved back and forth (only transfers are shown in Table 1) among the several sectors with residual amounts (not shown) available for the next round of final purchases (not shown).

II. SUGGESTED REVISIONS OF EXISTING ACCOUNTS

How could we improve upon Table 1 and the present accounts which it reflects? One way would be to deconsolidate the households sector to show families as distinct from financial intermediaries and philanthropic organizations. Establishing a separate "insurance and pension" subsector would enable us to show employer and employee contributions to fringe-benefit insurance and pension funds, and outpayments from those funds to families. Setting out a separate subsector for philanthropies would identify the business and nonbusiness contributions to, and the outpayments from, such organizations. Both insurance and philanthropies make payments on bases quite different from return for current service and hence are part of a transfer system. However, philanthropies, unlike insurance intermediaries, may operate like governments in having residuals for nontransfer purposes. This deconsolidation is pictured in Table 2, which assumes that the current receipts and current outpayments of insurance and pension funds are equal.

Further questions about the adequacy of Table 1 take us to reconsideration of the definition of the term transfer. The existing

TABLE 2 Revisions to Table 1, Transfers (Positive and Negative) by Sector[a]

Transfer Item[b]	Sectors: Business	Government	Insurance and Pensions	Philanthropic Organizations	Families
Business transfers to households					
In money	–			+	
In kind	–			+	+
Other labor income	–		+		
Government transfers to persons					
In kind		–			+
Personal tax and nontax payments					
In kind		+			–
Personal contribution to insurance			+		–
Personal contribution to philanthropic organizations				+	–
Insurance payments to persons					
In money			–		+
In kind			–		+
Philanthropic organizations contribution to persons					
In money				–	+
In kind				–	+
Balancing					
Receipts of transfer less payment of transfer			0[c]	+[d]	

[a] The household sector is resectored into the insurance and pensions sector, the philanthropic organizations sector, and the families sector.
[b] Items not presently shown as transfers in the National Income Accounts.
[c] Zero, by definition, as discussed in text.

accounts restrict the use of the term to quite explicit transactions, such as taxes and social insurance contributions. We have already suggested that it takes only a small leap to consider employer and employee contributions to collectively bargained insurance funds as transfers. It may not be a great leap from that to think of certain other types of pure insurance (as opposed to saving) contracts as being in the nature of transfers. Certainly, from the point of view of many beneficiaries (commonly somewhat removed from the contractor), insurance proceeds are similar to government transfer payments.

It is likely that businesses make some transfers that are now counted as factor payments and others that are "lost" in intermediate product. Consider the following: wages are paid to an employee during the time he is sick;[6] a good or service is sold below cost to some customers with the loss recouped by higher charges to others (this practice, as followed by doctors with sliding scales of fees or public utilities, is akin to private means testing); the services of an executive, while he is on the company payroll, are made available to a philanthropic agency; free on-the-job training is extended to employees; radio and TV broadcasts are made available to consumers at zero price (this could be identified as a transfer to the family sector, or, as Ruggles and Ruggles[7] suggest, it could be carried as a nontransfer in the form of consumption by business). On the assumption that all these are properly identified as transfers, they should be included in Table 2.

Also not recorded in the existing accounts are certain transfers from households to the other sectors. Thus, it can be argued that the opportunity cost of being frictionally unemployed—and thereby contributing to the overall efficiency of the economy—is a transfer from families to business.[8] Similarly, military conscripts who supply labor at less than opportunity cost are party to a transfer.

But probably the most significant quantity of nonrecorded transfer is transfers in kind by government to private beneficiaries.

[6] David L. Grove calls for OBE to produce an addendum item on compensation for time not worked in "Survey Readers at IBM," *Survey of Current Business*, 51, no. 7, part 2 (July 1971):92.

[7] Richard Ruggles and Nancy Ruggles, *The Design of Economic Accounts* (New York: National Bureau of Economic Research, 1970).

[8] Kendrick, *Economic Accounts and Their Uses*, p. 123.

To say that all government purchases are part of final product and hence beyond the count of income is, of course, correct in an accounting sense, but the statement overlooks the fact that, in many instances at least, government buys goods or services for specific persons. The line between giving a person money to make a consumer purchase and making, on his behalf, the purchase (or a fraction of it) of a good he consumes is not a meaningful line. But, some may object, if we admit that some purchases by governments (or philanthropies or health insurance carriers) are properly counted as transfers to households, there may be no logical dividing line separating purchases for transfer from other purchases. The guideline for such a separation is, we assert, to identify those publicly purchased goods which have a broad analogue in private markets and which, potentially at least, have a largely exclusive benefit to a single person or family.[9] Incidentally, this same test, if applied to purchases for business firms, might produce a substantial list of what should be called transfers in kind to business. The word *exclusive* implies that we are talking about items that are not pure public goods. The principal items in this category are purchases of health and education services, along with food and housing. Nontransfer purchases by government are, of course, financed by the difference between transfers received and transfers made by government.

The government income and outlay account could show a transfer in kind simply by dividing purchases into those for "transfers in kind" and those for "other purposes." This shows the employment-generating purchase in the government sector. The personal sector account could carry entries in parentheses, crediting (transfers in kind) and debiting (consumption of transfers in kind).

This seems plausible enough when the transfer takes the form of food or housing, but not so plausible when it is education, which is more in the nature of an investment good which may not yield returns for some years. To account for education as a capital transfer, the accounting of each sector should be divided into

[9] For a discussion of this issue and one resolution of it, see *Social Welfare Expenditures, 1929-1966,* Social Security Administration Research Report No. 25, 1972, pp. 11-16. Also see Alfred M. Skolnik and Sophie R. Dales, "Social Welfare Expenditures, 1971-72," *Social Security Bulletin* (December, 1972):3-17.

current and capital accounts.[10] The personal sector's capital account would then show a credit of transfer of capital from government and a debit of accumulation through capital transfer of education. The current account of the personal sector would enter human capital consumption as a deduction from income.

Until the substantial revision of accounts referred to is accomplished, there is no option open to us but to carry education along with other transfers in kind as "income" to the beneficiaries. Training financed by business presents a similar consumption versus investment problem. Kendrick suggests that the "costs of rearing children to working age" is in the same category.[11] The latter would be a transfer if paid for by government.

Table 2 presents all the revisions to the existing accounts discussed above. (This table needs to be read in conjunction with Table 1.) No division of transfer into current and capital is suggested, but resectoring is indicated, and new transfer items in money and in kind are included. A residual for nontransfer purposes is indicated for the philanthropic organizations sector.

Table 1, along with the revisions in Table 2, gives a complete picture of intersectoral transfer. We can, without conceptual difficulties, regroup the tax and transfer items listed in Tables 1 and 2 and attribute each of them to "all families" in the manner suggested in Table 3. (Only broad headings for groups of transfer items are shown. The complete table should carry a detailed list of money and in-kind items.) To get a total of all transfers exclusive of intrafamily transfer, we need to add interfamily transfers. One can pretend that these transfers move into and out of an imaginary "interfamily transfer fund."

The discrepancy between transfer payments and transfer receipts in the "all families" column quantifies one result of the transfer process, namely, the giving up of income to government and philanthropic sectors. The total of transfer receipts has special interest as an indicator of the importance of transfer. This is the part of families' final income which has been shuffled about through intermediaries rather than coming directly to them in the form of factor income. This particular total—or, rather, something

[10] Kendrick, *Economic Accounts and Their Uses,* pp. 128-30. Also see Dudley Seers and Richard Jolly, "The Treatment of Education in National Accounting," *Review of Income and Wealth* (1966):195-208.

[11] Kendrick, *Economic Accounts and Their Uses,* p. 124.

TABLE 3 Transfer Payments and Receipts Attributed to Families, by Groups of Families

	Family Sector					
	All Families		*Group A Families*		*Group B Families*	
Item	*Payments*	*Receipts*	*Payments*	*Receipts*	*Payments*	*Receipts*
Business taxes and transfers						
Intersectoral nonbusiness taxes and transfers						
Interfamily transfers						
Total transfer receipts and total transfer payments						
Balancing						
Receipts less payments						

close to it–is sometimes related to GNP to suggest the relative significance of transfers. Note that if this is done with the expanded list of transfer items listed here, we must be careful to add certain of the transfers, e.g., the training paid for by business, to official GNP. Also note that the apparent significance of transfers would be altered if one were to gross up GNP to include such nontransfer items as home production of housewives and rental value of consumer durables. But perhaps it would make more sense to relate total transfers to GNP less capital consumption and less governmental and philanthropic outlays for nontransfer purposes. In other words, relate the transfer receipts of families to what might have been available as factor income after financing consumption by business, government, and philanthropies.

The transfer receipts and payments by "all families" conveys a good deal of information about the functions and sources of transfer. However, these data could be rearranged to show how much of the "nation's transfer budget" goes to such functions as those detailed in the Social Budget of the German Federal Republic as sickness, invalidity, death, unemployment, old age, large families, training, employment, housing, and restitution. The sources in that budget are government, nongovernment for certain "social security-related measures," and indirect measures such as tax relief.[12] We should note that our "all families" totals will not allow a separate presentation of tax relief by function. However, when families are divided into groups as discussed below, the differential tax payments will reflect tax preferences by group.

We have deliberately spread our net wide in order to catch all the transfer in a modern mixed economy having several identifiable sectors. This should mean that it is also wide enough to serve for comparative study of quite differently structured economies. Consider first an economy where the market sector is less important and home production is more important, and where there is no separate insurance nor private philanthropy sector. In such an economy, one would expect most transfer to be done within the family sector. The key problem for social accountants is to distinguish factor income from transfer income and to standardize across countries the definition of the primary family. The interfamily transfers via the extended family may be largely in kind.

[12] Fisher, "Social Reports," p. 16.

The challenge to the accountant may be even greater in the case of another structure: namely, an economy that is advanced in the sense that there is little home production, but where production is largely socialized and government is unitary. In such an economy, most transfer goes on between an undifferentiated government sector and a family sector, yet such transfer may be hidden by a failure to account for the distinction between transfer and producer income or between taxes and prices (as reflections of costs) paid. In actuality, most socialist economies do have some institutions and accounts which make possible some estimates of communal consumption and of payments to nonproducers.

III. ACCOUNTING FOR REDISTRIBUTION WITHIN THE FAMILY SECTOR

Although considerable interest attaches to the listing of total transfer receipts for "all families," we still do not have a good indication of how the transfer system enters into the determination of the distribution of final income *among* families. To make any inroads on that topic we need to make some big leaps away from present practices of national income accountants.[13] Let us divide all families into two socially significant groups, A and B. Then, by careful survey of money income and valuation of items in kind, determine the total amount of final income (including undistributed corporation profits), after all transfer, positive and negative, which is received by all families. Divide the total between group A and group B. Next, add back each positive and negative transfer to arrive at a total of pretransfer income for each group. This process requires, of course, considerable estimation and imputation and must rely on information from household surveys and from records of business firms, government agencies, and others supplying transfers in kind. Key decisions must be made with regard to tax incidence. In undertaking to do this, one finds that one of the more troublesome issues has to do with the balancing item shown in Table 3. This is equal to nontransfer

[13] At least this is the case in the United States. However, in the United Kingdom, official estimates have been produced over the last decade of the redistributive effects, by income class, of all taxes and of all cash and noncash government and social service benefits. See "The Incidence of Taxes and Social Service Benefits in 1971," *Economic Trends,* no. 229 (November, 1972).

outlays by governments and philanthropies and is the difference between total pretransfer income, less capital consumption, and posttransfer income for all families.

How is one to apportion this "discrepancy" between groups A and B? One way is to ignore it in the same way we handle capital consumption. In other words, simply assert that the pretransfer income is the income left after consumption by business, government, and philanthropies has been financed. That is not altogether satisfying because the taxes and contributions financing that consumption are transfers and they must have redistributive impact. The other way to handle it is to include the nontransfer outlays and to apportion them between group A and group B so as to have no redistributive impact. That is, give each group as a receipt the same proportion of this total as it has of final income. This particular method of apportionment as it applies to government consumption has been objected to by Henry Aaron and Martin McGuire on the ground that people in group A may like public goods more than do those in group B.[14] One might raise the same point with regard to capital consumption, since some people have more interest in future output than do others. This objection calls for extending income accounting beyond the measurement of money flows and the money value of flows in kind to the measurement of satisfactions, something which we do not know how to do. However, the objection is well taken as a caution in interpreting the findings with regard to income redistribution accomplished. Those findings can be stated in terms of how the share of pretransfer income received by group A relates to its share of posttransfer income.

One important matter for decision by the social accountant has to do with division of the population into groups. Here, as in the decision with regard to functional breakdown of transfer receipts,

[14] Henry Aaron and Martin McGuire, "Public Goods and Income Distribution," *Econometrica*, 38, no. 6 (November 1970):907-20. L. Stiefel, E. Smolensky, and M. Schmundt make a similar point with reference to the possibility that recipients of transfers in kind may value them at less than cost but that donors of such transfers may get satisfaction from making the transfer, which offsets some of the dissatisfaction from paying for it. One implication of this insight is that a straightforward money accounting may be said to overstate the redistribution of satisfactions from rich to poor ("Modifications for In-Kind Transfer Entries in the National Income Accounts," processed, Madison, Wisconsin, Working Paper No. 7, 1972).

one should have in mind broad social goals. Income classes or welfare-ratio[15] groups are undoubtedly important, but a well-rounded study will include divisions by such characteristics as age, sex, education, work status of head, and location of residence. Such a diversity of breakdowns would do a great deal to enlighten us concerning the consequences of the system of transfers.

We have asserted that social accounting for transfer should develop in two stages. One would bring us a picture of all types of tranfer across a revised sectoring of the economy. The second would describe how transfer modifies the share of total product going to various groups of families within the population.

[15] For rough estimates of how much the pretransfer poor gain from the American system of transfers, see Robert Lampman, "Transfer Approaches to Distribution Policy," *American Economic Review* 60 (May 1970):270. Earlier estimates along these lines are cited therein.