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APPENDIX II: PART A
REPORT OF THE WORKING GROUP ON FEDERAL
GOVERNMENT WEALTH

Prepared by JOEL POPKIN

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PREFACE

The Working Group on Federal Government Wealth was formed as part of the Wealth Inventory Planning Study. Its purpose has been to analyse the problems connected with, and prepare proposals for, the improvement of basic data and estimates required for a comprehensive inventory of the tangible wealth and financial claims of the Federal sector.

The members would like to thank the following people who sat in on some sessions of the group and contributed to its understanding of procedures and problems associated with an inventory of wealth:

Albert C. Blanchard, Department of Defense.

Mark Crossman, Department of Defense.

Ira Hunt, Corps of Engineers.

F. C. Jameson, Department of Defense.

John W. Kendrick, Wealth Inventory Planning Study.

Nestor Terleckyj, Bureau of the Budget.

Orin E. Schuyler, Department of the Interior.

The summary of Department of Defense data and procedures was written primarily by Mr. Crossman. In addition, appreciation is due to members of the working group, Joseph Cohn and Maynard Comiez, for the special reports they prepared which have been drawn upon for the group report.

The working group held meetings on June 25, August 8, and October 10, 1963. Discussions between individual members of the working group and Wealth Study research staff members took place during fall and winter.

While this report is the responsibility of the secretary, every attempt has been made to present the consensus of the working group opinion. However, no member should be held responsible for all the views and recommendations contained in the report. Mr. Cohn has made separate comments which are at the end of this report.

JOEL POPKIN.

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1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is essential for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and techniques used to collect and analyze data. It highlights the need for a systematic approach to data collection and the importance of using reliable sources of information.

3. The third part of the document focuses on the analysis and interpretation of the collected data. It discusses the various statistical and analytical tools that can be used to identify trends and patterns in the data.

4. The fourth part of the document discusses the implications of the findings and the need for further research. It emphasizes that the results of the study should be used to inform decision-making and to guide the development of policies and procedures.

5. The fifth part of the document provides a summary of the key findings and conclusions of the study. It highlights the main points of the research and the implications for the organization's future operations.

FEDERAL GOVERNMENT

I. INTRODUCTION

There is a great need for consistently valued data on wealth—tangible and intangible—for general economic analysis. The wealth of the Federal Government is an important part of total national wealth. No wealth estimates for the United States could be considered complete without estimates for the Federal sector, prepared systematically, and consistent with those for the rest of the economy.

The group felt that in addition to the various uses of national wealth estimates by sector, it was important to consider specific uses of Federal Government wealth estimates in planning improvements of existing data. Based on group and staff discussions, some major categories of use were developed.

USES

Major uses of Federal Government wealth estimates can be discussed in terms of three major categories: (1) analysis of relationships of Federal to total wealth, and interregional and international structural comparisons; (2) administrative uses, as for property management, and for productivity and cost estimates and analyses; and (3) as a background for budgeting and long-range projections.

Structural analysis

Federal Government wealth is an important component of total national wealth, and its estimation is, of course, necessary for deriving aggregates. In understanding growth processes it is useful to analyze the changing relationship of Government assets, by type, to total national wealth through time. Further insight is gained by comparing levels, and changes, in public wealth ratios among regions of the Nation, and among nations. Government shares of wealth may differ considerably from shares of national income and product.

Estimates of Government wealth by region, State, and locality might be used as a basis for estimating the taxes foregone by jurisdictions due to the tax exemption accorded Federal property.

Administrative uses

The main purpose of wealth estimates is for the broader needs of general economic analysis. However, the detailed records required for such an inventory can be useful in their own right as tools in decision making. Indeed, the present GSA and DOD inventories were undoubtedly instituted to serve such needs. The requirements of the wealth inventory may serve to generate additional records which can be put to internal administrative uses. The administrative uses—actual and potential—of the records underlying a wealth inventory will be elaborated in the remainder of this section.

Property management.—The underlying detailed property records available in Federal agencies—particularly GSA, DOD, Interior, and Agriculture—are essential to property management. For the purchase and control of inventory stocks, officials responsible for property management must know the current levels, prices, and rates of withdrawal of the various items. The planning of maintenance and repair and additions and replacements is facilitated by knowledge of the age and condition of the fixed capital goods. Government-wide tabulation of property “excess” to each Federal agency, and then “surplus” to the Government was one of the original reasons behind congressional requests for a Federal inventory. The basic property records aid, of course, in establishing sales prices.

Management efficiency or “productivity” studies.—Estimates over time by an agency (or administrative units within agencies) of the real capital stock employed, in conjunction with estimates of work-unit output, yield indexes of the output-capital ratio. These ratios, and ratios of output to other inputs, particularly labor, yield valuable information concerning changes in productive efficiency of the various agencies. That is, they reveal the net savings per unit of output achieved by management through time as result of improvements in organization and technology. At the Federal level the Bureau of the Budget has completed a pilot study of productivity in five agencies (including the Post Office Department), and indications are that the techniques are applicable to many other, but not all, agencies. Some homogeneity of work-unit outputs through time is necessary for output measurement. For purpose of productivity measurement it is desirable to compute the real net capital stock, rather than to use real gross capital stock. Net capital stock can be weighted by an imputed annual interest charge to get the real service cost for the use of capital per unit of output. Real depreciation allowances may be computed on a per-unit-of-output basis directly, since this is already an annual cost for the estimated using-up of the capital. Note that capital *used* rather than *owned* is the appropriate measure. In addition to the interagency studies, comparisons of levels and changes in the productivity ratios (especially if on a detailed basis by type of input) can be used as a control by agencies (such as VA or IRS) which have a number of field offices doing similar work. While caution must be exercised in this use to take account of other variables that may differ among installations (such as size), often marked divergencies in levels or trends in the capital output or other productivity ratios raise red flags signaling the need for further investigation.

Cost estimates.—For purposes of overall decision-making in Government (by the Bureau of the Budget and Congress), the implicit capital charges and depreciation of fixed assets are a cost, just as are the current expenses. Obviously, in trying to determine appropriations to various agencies, a better job can be done if all costs, and where feasible unit costs, are known, and can be weighed against estimated benefits—total, or per unit. (This sort of computation is also necessary if a capital budgeting scheme were adopted.)

Present estimates of the national product originating in general government—Federal, State, and local—do not now include an allowance for the services of productive wealth, either gross (including estimated depreciation) or net (the imputed return, or capital charge).

Most economists agree in principle that such an imputation should be included in the product of the government sector and of the Nation as a whole. Certainly, public capital, as well as workers, contribute to output. Inclusion of capital services is also needed for the sake of consistency with the business sector. At the grassroots level, citizens are entitled to know what the wealth of their governmental bodies is (and implicitly the services of that wealth) since it has been created or supported through their taxes. It makes possible a more complete accounting of the services being provided by governments to the citizens and thus a better understanding by citizens of what they are buying with their taxpayments.

Estimates of capital charges are also useful in decisions as to whether to undertake certain capital outlays; the Corps of Engineers currently uses such computations. Computation of prospective annual costs, including imputed interest and depreciation, would also help in the choice of alternative weapon systems by the Department of Defense as well as in the choice of alternative capital outlays generally by the civilian agencies.

Balance sheets.—Preparation of Government balance sheets as part of the national economic accounts, and possibly to accompany annual budget statements of receipts and expenditures would have advantages, and, of course, requires asset estimates—financial (intangible) and real (tangible). The Federal inventory report of the House Committee on Government Operations is an approach to a balance sheet, but without the liabilities and net worth side. The financial assets and liabilities should be shown on both a combined and a consolidated basis. Over a period of years, the balance sheet and operating statement (on revenue and expenditures) would permit useful analyses as background for policy formulation and projections. Among the tools it would provide are ratios of tangible assets to debt, to financial assets, to revenue; and measures of the structure of assets, of liabilities, and of the relationship between types of assets and liabilities.

It should be emphasized, however, that fiscal policy should not be conducted with reference to the debt-asset position of the Government, but rather with primary consideration of the requirements for a sound and vigorous national economy. Like any other analytical tool, balance sheets can lend themselves to misinterpretation. The group feels strongly that their use in connection with discussions of the size of the Federal debt should be discouraged. While warning against misuse, the group generally feels that the possible constructive uses of sector balance sheets warrant their consideration.

Budgeting and projections

Knowledge of past trends and relationships for important expenditure classes provides perspective for making better budget estimates, and longer range projections.

The Budget Bureau in recent years has required 5-year expenditure projections from the various agencies, to provide a better background for current budgetmaking. Knowledge of past relations between various types of capital stocks and current output (in current prices, but preferably in constant prices) facilitates projections of capital output ratios, which in conjunction with output projections, make possible estimates of capital and net investment requirements. Net

investment plus the depreciation estimates that can be derived from the stock estimates provide an important part of total expenditure projections. Depending on the degree of detail in the investment projections, these are of use to capital goods manufacturers and construction firms in projecting their own markets, and thus their expansion plans. However, while these relationships between capital budgets and a wealth inventory are appropriate for discussion here, this discussion should not be construed as an endorsement of capital budgeting.

II. SURVEY OF EXISTING DATA

Notable improvements in property records on the part of the General Services Administration and the Department of Defense, and the interest and direction of the Senate Appropriations Committee and the House Committee on Government Operations, are responsible for the substantial increase in the availability of data on the tangible assets of the Federal Government.

The earliest known attempt to inventory Federal real property was late in the 1930's. This inventory, prompted by a study of the effect of Federal ownership on State and local taxation, was taken as of June 30, 1937. It dealt only with Federal property in the United States, for which the inventory established a current value of \$4.7 billion and a cost in excess of \$6.1 billion. This inventory was manually prepared in large handwritten ledgers, now on file in the Archives. The summary data are published in House Document 111, 76th Congress, 1st Session, "Federal Ownership of Real Estate and Its Bearing on State and Local Taxation" (Washington: 1939).

In the early 1950's, requests for the donation of real property deactivated by the termination of World War II and the Korean war and Federal needs for space for new programs created renewed interest in property inventories. Accordingly the Senate Committee on Appropriations requested the General Services Administration to initiate a Government-wide real property inventory report. The first inventory covered only federally owned real property in the United States, as of December 31, 1953. The program has been expanded to include annual inventories as of June 30, covering all real property owned by and leased to the United States throughout the world. A comprehensive history of the real property inventory program is contained in the Senate hearings on the Supplemental Appropriations Act, 1958 (Public Law 85-170).

The first attempt to compile data on the total amount of Federal real and personal property was made by the House Committee on Government Operations. Data as of June 30, 1955, were the first published by the committee. The history, description, and objectives of this undertaking by the House committee are described in its print: "The Federal Property Inventory Undertaking of the House Committee on Government Operations" (1960). The inventory, published annually, is the most complete compilation of data on Federal Government wealth. It will be analyzed in detail in the following section of the report.

THE FEDERAL REAL AND PERSONAL PROPERTY INVENTORY REPORT

The report of the House Committee on Government Operations, under the chairmanship of William L. Dawson, contains a consolidation of existing data and new data where gaps existed. The report is prepared pursuant to House Resolution 26, January 5, 1955. It covers Federal real and personal property, civilian and military, located in the United States, its outlying areas, and foreign countries. The report contains reprints of the inventory reports prepared by GSA and the Defense Department and some of the general-ledger-account data collected by the Treasury.

Provision for an inventory of the property of the Department of Defense—controlling agency for over two-thirds of the reported dollar value of Federal real and personal property—had been made in Public Law 216, section 410, 81st Congress. The first report of the Department of Defense under this Law to the Congress (Senate Appropriations Committee) covered real and personal property held as of December 31, 1954; to the Dawson committee, as of June 30, 1955.

The General Services Administration had authority, pursuant to the Federal Property and Administrative Services Act of 1949, to inventory the real property of the Federal Government throughout the world. The GSA has prepared these reports for December 31, 1953, and for each fiscal yearend since June 30, 1955.

The House committee obtains Government-wide data on tangible personalty and financial assets (except for 98 percent of those controlled by the DOD) from the Treasury. The Treasury, pursuant to section 114 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66b), began reporting data on the personalty and financial assets of Federal agencies to the Dawson committee as of June 30, 1955, and has continued to do so annually. The information for the Treasury general ledger accounts was obtained, for the fiscal 1962 yearend, from 153 agencies submitting 267 statements of financial conditions.

The combined inventory reports of GSA, DOD—including the civilian functions of the Corps of Engineers—and the Treasury accounted for \$270 billion, 90 percent of the \$299.4 billion value of Federal property on June 30, 1962, reported by the Dawson committee. This is exclusive of the donated land and public domain under control of the Department of Defense valued at \$406 million at estimated current day value.

The figures used throughout this report will be those reported by the Dawson committee. They are useful in obtaining estimates of the relative magnitudes of various sectors, although the basis of valuation is not consistent. Recommendations for improving and strengthening these estimates, including those suggested by the Dawson committee, are the subject of this report.

The remainder of Federal Government real and personal property—reported at \$29.4 billion in the Dawson report—is composed of the following items:

1. Personalty of the legislative and judicial branches collected from the relevant offices (\$2.5 billion).
2. Realty of the legislative and judicial branches reported by the Architect of the Capitol (\$0.4 billion).

3. Related investments—construction-in-progress, leasehold improvements, and real estate collateral acquired—collected by the Treasury (\$8.5 billion).

4. Realty donated or acquired at no cost to the Federal Government collected from agencies responsible for such realty (\$0.3 billion).

5. Federal public domain properties including mineral resources reported by appropriate using agencies (\$17.7 billion).

Table I shows the value of Federal property on June 30, 1962, reported to the Dawson committee, by major type for the Department of Defense, all other executive agencies and the legislature and judiciary. The basis of valuation of the various items is discussed throughout the remainder of this section.

TABLE 1.—Grand recapitulation of the personalty and realty of the U.S. Government, classified by major asset type for selected holders as of June 30, 1962

[In millions of dollars]

Holder asset type	Department of Defense	All other executive agencies, offices, and departments	Legislature and judiciary	Totals
Real property.....	\$41,473	\$17,707	\$440	\$59,620
Land donated or acquired at no cost.....	213	79		292
Public domain.....	193	17,547		17,740
Related realty investment.....	4,667	3,809		8,476
Tangible personalty.....	127,938	26,632	78	154,648
Intangible personalty.....	3,254	53,027	12,387	58,668
Total.....	177,738	118,801	2,905	299,444

¹ Includes \$2,364,000, value of the collection of books, etc., of the Library of Congress. The collection is reported as "other assets" and is tabulated along with other items of intangible personalty. Because other items might be similarly classified, the distinction between tangible and intangible personalty is not as clearcut as might be inferred from the table.

Source: Prepared from data found in Federal Real and Personal Property Inventory Report, December 1962. These data are recast into more conventional form in a table in chapter 9 of the staff report.

THE DEPARTMENT OF DEFENSE REAL AND PERSONAL PROPERTY REPORT

The annual report on real and personal property of the Department of Defense provides summarized financial and selected quantitative data as of June 30 of the property held by the military departments and defense agencies for the military programs, property held by the Corps of Engineers for civil works, and the national industrial plant and equipment reserve in the custody of the General Services Administration.

The DOD inventory is broken down into the following major categories for which the valuation as of June 30, 1962, is given:

	<i>Billions</i>
1. Real property.....	\$35.4
2. Construction in progress.....	1.8
3. Personal property.....	127.7

Realty

The real property controlled by DOD, excluding public domain and donated lands, is valued at acquisition cost. Since February 1956, acquisition cost includes construction, including installed personal property, administrative overhead cost, and costs of Government-

furnished materials and labor. Asset-type detail consists of a breakdown of realty into the following facility classes:

	<i>Billions</i>
1. Operational and training.....	\$7.7
2. Maintenance and production.....	4.4
3. Research and development.....	1.5
4. Supply.....	3.5
5. Hospital and medical.....	.7
6. Administrative.....	1.2
7. Housing and community.....	7.3
8. Utilities and ground improvements.....	8.4
9. Real estate, land (used in connection with all of the above facility classes but not allocated to them).....	.7
10. Total, June 30, 1962.....	35.4

The annual report also provides significant category analysis of real property. Ten of these categories, which accounted for 63 percent of the real property held for military purposes on June 30, 1962, follow:

	<i>Billions</i>
1. Airfield pavements.....	\$3.2
2. Troop housing (excluding emergency housing).....	3.0
3. Family housing (excluding trailers and detached garages).....	3.0
4. Maintenance facilities.....	2.8
5. Roads and streets.....	2.1
6. Covered storage (depots and installations).....	2.0
7. Electric utilities.....	1.8
8. Production facilities.....	1.6
9. Land operational facilities.....	1.6
10. R. & D. and test facilities.....	1.5

Geographic detail by State is published in the annual report on the cost and acreage of land and improvements held for military purposes. Land and improvements outside the 50 States are broken down into two groupings—possessions, and foreign countries.

The amount, at cost, of military real property for active and inactive installations is also reported.

The rentals paid and received by the Government attendant to the leasing "in" and "out" of military real property are stated. This information is shown separately for the United States, its possessions, and foreign countries.

All information on military real property is available by individual military department—Army, Navy including the Marine Corps, and Air Force.

DOD instruction 4165.14, "Inventory of Military Real Property," prescribes uniform procedures to be followed by the military departments for maintaining individual records of real property and the preparation of summarized reports. Codes have been established for over 100 categories of military real property, and for type of construction, ownership, and type of installation—permanent or temporary. In general, an individual priced and coded property record is maintained for each unit of real property (estimated to exceed 2 million units).

Personal property

Personal property as of June 30, 1962, was reported as follows:

	<i>Billions</i>
1. Equipment and supplies in supply systems.....	\$40.7
2. Property other than supply system inventories.....	87.0
(a) Weapons and other military equipment in use.....	73.8
(b) Plant equipment.....	8.4
(c) Government-furnished material.....	2.5
(d) Industrial funds.....	.3
(e) Excess, surplus, and foreign excess property inventories.....	2.0

The material in the supply systems of the military departments and defense agencies consists of materials, supplies, and equipment to support the U.S. forces. Of the total equipment and supplies in the supply system—\$40.7 billion as of June 30, 1962—stock fund inventories accounted for \$6.2 billion, appropriated fund inventories, for \$34.5 billion. Stock fund inventories are priced at a standard price reflecting the current procurement or production costs, plus a surcharge for transportation and a surcharge for foreseeable normal stock losses. Appropriation-financed inventories are priced in the same manner except that no surcharge for loss is included. Standard prices of supply system inventories are reviewed at least annually to determine if a price revision is required. Inventories are reported by approximately 100 supply management groups into which the 4.6 million line items in the supply systems fall. Inventories are reported by major material category, classified by purpose for which held (*strata*). Certain low value items are excluded from financial reporting although accounted for in quantitative terms.

Weapons and other military equipment in use with organizational units include ships, aircraft, and missiles which account for the high cost reported for this category—\$73.8 billion. This type of property is reported by broad asset classes and the military department using the weapons and equipment. Accountability is maintained for all weapons and equipment until worn out, lost, destroyed, or otherwise disposed of. The book value of ships is stated on the basis of construction costs. Aircraft and missiles are priced at the average procurement "flyaway cost" for the entire production over the life of the type, model, and series of the item. Items such as rifles, radios, and vehicles are priced at the inventory standard price.

Plant equipment consists of machinery, equipment, furniture, vehicles, machine tools and accessory and auxiliary items, excluding special tooling, used in the manufacture of supplies or performance of services. Such equipment is utilized by military installations and defense contractors or held in departmental industrial equipment or other reserves. If in inventory, plant equipment is priced at standard prices reflecting current procurement costs. No surcharges for losses or transportation are included in prices. Plant equipment acquired directly for use is priced at acquisition cost. The annual report reflects the amount of plant equipment by various types—production equipment, metalworking, and other plant equipment—for each military department. High costs metalworking equipment amounting to

\$2.5 billion is reported in detail by age for each Federal supply classification and department. Data currently omitted from reports are the amounts of Government-furnished scientific equipment (plant equipment) in the hands of universities conducting federally financed research.

Inventories held in industrial funds consist of raw materials, supplies, and work in progress required for the manufacturing, assembly, or repair processes of industrially funded activities. These are priced at acquisition cost.

Excess, surplus, and foreign excess property (including scrap and salvage) consists of those materials, supplies, and equipment in the hands of property disposal offices for screening for further use in the Government or in the process of sale or other disposition. It is valued at the price at which transferred from inventory at the time of transfer to disposal. The amounts held by military departments and defense agencies in the United States, its possessions and foreign countries are stated in the annual report.

Government-furnished material consists of equipment, materials, and supplies which have been purchased by defense contracting officers and furnished to defense contractors for incorporation in a final product being produced for the Department of Defense.

Civil works property

The amount of personal and real property held for the Civil Works Division of the Corps of Engineers, Department of the Army, is stated in the annual report as of June 30, 1962, as follows:

	<i>Billions</i>
Real property-----	\$6.0
Construction in progress-----	2.9
Personal property-----	.2

This property is held for civil functions such as harbor and flood control.

National industrial plant and equipment reserve

As of June 30, 1962, the GSA maintained 12 manufacturing and processing plants in the national industrial plant reserve. Ten of these plants have been sold with recapture clauses, and two have been leased to private concerns.

As of June 30, 1962, GSA also maintained a national industrial equipment reserve of over 9,000 items of metalworking machinery and production equipment, which originally cost \$91.8 million. These plants and equipments are available to Defense upon request and justification of their use.

THE GENERAL SERVICES ADMINISTRATION INVENTORY REPORT

Summary data based on the GSA annual inventory of Federal property are contained in "Inventory Report on Real Property Owned by the United States Throughout the World." Some of the tables found in this document are reprinted in the report of the Dawson committee.

The GSA real property inventory totals are supported by detailed reports submitted for each of the 15,335 Federal installations by agency, located in the United States, outlying areas and foreign countries. This figure excludes Department of Defense military installations located outside of the 50 States for which only summary cost data are reported to GSA.

For each reporting installation detailed information is collected on GSA form 1166. These data are transferred to punch cards and reproduced on detailed inventory listings. The following information is collected by GSA on form 1166:

1. Name and location—State, county, and city; country if foreign.
2. Land:

(a) Classification—predominant use segregated into the following classifications for which data on the acquisition cost of land located in the United States, in millions of dollars, as of June 30, 1962, are given:

(1) Flood control and navigation.....	\$1,394
(2) Military (except airfields).....	360
(3) Office building locations.....	307
(4) Airfields.....	252
(5) Reclamation and irrigation.....	235
(6) Forest and wildlife.....	206
(7) Industrial.....	159
(8) Power development and distribution.....	158
(9) Parks and historic sites.....	150
(10) Institutional.....	60
(11) Research and development.....	36
(12) Storage.....	32
(13) Harbor and port terminals.....	24
(14) Grazing.....	21
(15) Military functions in Alaska and Hawaii.....	20
(16) Vacant.....	17
(17) Housing.....	1
(18) Agriculture.....	1
(19) Other land uses.....	29

(b) Acreage—rural and urban.

(c) Method of acquisition—public domain, purchase, donation, exchange, long-term interest.

(d) Date of acquisition.

(e) Cost to the Federal Government including additional costs incurred in purchasing and preparing the land for use—no cost is reported for land held in trust, reserved and unreserved public domain, and land donated for historical sites.

3. Buildings—completed and available for service:

(a) Classification—predominant use segregated into the following for which data on acquisition cost of buildings located in the United States, in millions of dollars, as of June 30, 1962, are given:

(1) Housing.....	\$4,651
(2) Service.....	3,970
(3) Industrial.....	2,896
(4) Office.....	2,597
(5) Storage.....	1,973
(6) Research and development.....	1,842
(7) Hospital.....	1,347
(8) Military functions in Alaska and Hawaii.....	1,277
(9) School.....	793
(10) Prison.....	226
(11) Other institutional uses.....	226
(12) Other usages.....	298

(b) Number of buildings.

(c) Date acquired.

(d) Gross floor area—except for buildings held in trust.

(e) Percent of floor space occupied—except for buildings held in trust.

(f) Cost to the Federal Government excluding the cost of buildings held in trust and including all expenditures required to adapt the building to its used and subsequent capital improvements.

4. Other structures and facilities:

(a) Classification—predominant use segregated into the following categories for which data on acquisition cost of structures and facilities located in the United States, in millions of dollars, as of June 30, 1962, are given:

(1) Utility systems.....	\$4, 812
(2) Flood control and navigation.....	3, 957
(3) Power development and distribution.....	3, 946
(4) Roads and bridges.....	2, 715
(5) Airfield pavement.....	2, 147
(6) Reclamation and irrigation.....	1, 769
(7) Miscellaneous military facilities.....	1, 535
(8) Military functions in Alaska and Hawaii.....	1, 302
(9) Storage.....	1, 054
(10) Service.....	905
(11) Harbor and port facilities.....	680
(12) Railroads.....	597
(13) Research and development.....	536
(14) Communication systems.....	293
(15) Industrial.....	151
(16) Navigation and traffic aids.....	160
(17) Monument and memorials.....	31
(18) Other usages.....	456

(b) Cost to the Federal Government—except the cost of buildings held in trust and including all expenditures required to adapt the building to its use and subsequent capital improvements.

Once an installation has submitted the above data on GSA form 1163 it must file a new report only when changes of \$1,000 or more have occurred in the previously reported holdings. The changes may be the result of a new acquisition, omission, transfer in, disposal, transfer out, or revision and are so categorized. The year-to-year changes in the property holdings of installations controlled by each agency—the level at which reports are made to GSA—are summarized by the respective agencies on GSA form 1209, submitted as of the end of each fiscal year. The details of the year-end realty inventory are consolidated for each agency on GSA form 745 which is submitted annually. A special feature of this report is a column where portions of realty which have been declared excess to the needs of agencies may be shown. The Department of Defense follows a different procedure in reporting to GSA. It submits a complete inventory annually rather than reporting changes.

The total cost of realty and acres of land of the Department of Defense, given in the GSA inventory is less than those reported by DOD, to the Dawson committee. The excesses of DOD figures over those of GSA are 8,189,430 acres for land and \$135 million for reproducible realty. A reconciliation of the difference, prepared by DOD, appears in the Dawson committee report. For land, GSA acreage figures do not include easements, temporary use permits, leases, foreign base rights, public lands, land under the Pentagon, and "adjustment." (However, the Pentagon—land and building—is included as an asset of GSA in the governmentwide inventory.) For the value of reproducible realty, GSA figures do not include the cost of the

Pentagon, leasehold improvements and land acquisition rights and "adjustments." GSA figures include the value of donated properties which are not included by the Department of Defense.

TREASURY DATA ON PERSONALTY

The Treasury Department collects general ledger information on realty and on the personalty of the agencies, departments, and offices of the executive branch. The Treasury collection excludes the majority (98 percent) of Department of Defense personalty, except for financial assets (\$3.3 billion on June 30, 1962). Most of the data are collected quarterly on standard form 220—Statement of Financial Condition. The form is a balance sheet accounting for assets, liabilities, and net investment. The asset accounts, excluding land, buildings, structures and facilities, leasehold improvements and accumulated depreciation (for Federal enterprises), are incorporated in the report of the Dawson committee. The accounts which appear in the committee report, their dollar values, and valuation bases, as of June 30, 1962, follow:

1. Cash on hand, in banks, and in transit, \$11.2 billion (actual value).
2. Investments, \$5.7 billion (par value adjusted for discounts and premiums).
3. Accounts and notes receivable, \$4.5 billion (actual value).
4. Commodities for sale, etc., \$4.7 billion.
5. Work in process, \$0.7 billion.
6. Materials and supplies, \$9.2 billion (acquisition cost).
7. Loans receivable, \$26.9 billion (actual value).
8. Machinery and equipment, \$12.2 billion (acquisition cost).
9. Other assets,¹ \$10.3 billion.

INFORMATION ON OTHER ASSETS

Aside from data on Federal realty and personalty provided the Dawson committee by GSA, DOD, and the Treasury, there are other data which round out the report of the committee.

Data on the realty and personalty of the legislative and judicial branches are collected from the appropriate offices. Realty data for these branches are collected from the report of the Architect of the Capitol to the Dawson committee.

The personalty of these branches is reported in original cost. Detail by asset-type is extensive, covering a wide range of items. The value of the personalty reported, however, is small relative to the Federal sector as a whole.

Realty of the legislative and judicial branches under control and care of the Architect of the Capitol is reported by building at acquisition cost and for the aggregates of "land" and "building and improvements" at estimated present-day value.

The Dawson committee gets general ledger data from the Treasury on worldwide related realty investment. Such investment, consisting of construction in progress, leasehold improvements, and acquired real estate collateral, totaled \$8.5 billion on June 30, 1962. Of the total,

¹ Includes \$2.8 billion, the dollar equivalent of U.S. holdings of foreign currency; \$2.4 billion, the book collection and equipment of the Library of Congress; and \$2.5 billion, miscellaneous financial assets of the Department of Defense, including cash in the hands of disbursing officers. This category is a mixture of tangibles and intangibles. Because it is felt that other tangibles, aside from those of the Library of Congress, are, also, included in it, no attempt has been made to revise the accounts.

construction in progress accounts for 81 percent. Almost two-thirds of total construction in progress is attributed to the Department of Defense, particularly the Civil Works Division of the Corps of Engineers. Totals for the Department of Defense (including the Corps of Engineers) are reported in the DOD inventory report discussed above. Data on construction in progress are available only from these sources, since GSA does not add a building to its inventory until it is ready for use.

The remaining categories—leasehold improvements and acquired real estate collateral—consist mainly of holdings in the latter category by the Veterans' Administration and the Housing and Home Finance Agency.

Information on all three categories of related investment for the executive branch (other than DOD) is obtained from the Treasury through its form 220. Construction in progress and leasehold improvements are valued at cost. Acquired real estate collateral is accounted for at the value of the unpaid claim in most cases.

Federal realty donated or acquired at no cost to the Government which was previously recorded at zero cost or \$1 is now requested by the Dawson committee on an "estimated present-day value" basis. Seventy-three percent of the estimated value figure of \$292.2 million as of June 30, 1962 is attributable to holdings of the Department of Defense; 17 percent to holdings of the Department of the Interior.

Department of Defense's donated land is valued either at the installation level, using locally available information, or at higher levels, using data on trends in land values. The Department of the Interior values donated lands by procedures similar to those it uses to value public domain, described below.

Information on the estimated present-day value of land in this category is submitted directly to the Dawson committee by the controlling agencies. This land is also reported to GSA on its form 1166. The GSA regulation, however, requires that donated land and land acquired at no cost be valued at what it would have cost the Federal Government at the time of acquisition.

Detail on number of acres, agency, and State is given in the Dawson committee report. Since this land is also reported to GSA, the detail on form 1166 is most likely also available.

The final section of the Dawson committee report covers public domain acreage including mineral resources. Based on estimated present-day valuation, the value of public domain acreage is \$12.3 billion, and mineral resources, \$5.4 billion, as of June 30, 1962.

Of the \$12.3 billion estimated present-day value of public domain, \$6.5 billion is attributable to the Agriculture Department and \$5.5 billion to the Interior Department. Together these two Departments account for 97 percent of both the acreage and the value of public domain land.

The Department of Agriculture's totals include public domain land and timber. Excluded are the values of minerals and such items as water production. The valuation is in terms of "commercial values," based on the selling price of comparable adjoining property or broad classes where the former is not available. Information on the selling price of products of the land (especially timber) or fees paid to use the land (viz, grazing land) is also used, either directly or through capitalization formulas.

The Department of the Interior total is based on estimated "commercial value" also. Information on the selling prices of comparable land and revenue accruing to the Government because of these land holdings is used to establish the value.

The average per-acre value of public domain land as reported to the Dawson committee was \$17.06 on June 30, 1962. The average per-acre value varied widely by State and controlling agency.

Mineral resources, all of which are administered by the Department of Interior, are classified into two groups for valuation purposes. The first group consists of all mineral resources located in the States, valued at \$2.2 billion as of June 30, 1962. The present value of such resources is found by discounting at 4 percent, a 50-year income stream estimated by taking into account present receipts from mineral leases, licenses and permits, probably future production, and demand factors. An exception to this is the value of Minnesota copper and nickel deposits which is calculated by discounting at 4 percent, an estimated income flow over 25 years, deferred 25 years from the date of the estimate.

The value of oil and gas deposits in the Outer Continental Shelf, the second group, is based on a preliminary estimate subject to revision based on production experience, litigation, and technological change.

LEASED ASSETS

The General Services Administration prepares "An Inventory Report on Real Property Leased to the United States Throughout the World." The report is prepared pursuant to the Federal Property and Administrative Services Act of 1949 as amended. The report as of June 30, 1962, is the 7th annual compilation in the series.

The reporting unit for this survey is every lease calling for rental payments at an annual rate of \$2,000 or more (\$500 for leases involving land only). Groups of leased assets which total to the required figure may be aggregated and reported if all of the property involved is in the same "major" city, same State, or same outlying area of the United States or foreign country. When this is done, however, the leasing agency must still keep detailed records on each lease.

Rents are reported on an "annual rate basis." They totaled \$221 million for fiscal 1962. The terms of the lease are also reported. The rental payments are not broken down by category of leased asset. Floor space and acres leased are requested, however, by major use category. GSA publishes these totals for the United States for 11 classes of buildings.

Information on rentals paid for machinery and equipment is scanty. Data are available for rented and leased automatic data processing equipment and motor vehicles, presumably the two most important categories of assets leased "in." The Bureau of the Budget has pre-

pared a study for the Subcommittee on Census and Government Statistics of the House Committee on Post Office and Civil Service entitled "Inventory of Automatic Data Processing (ADP) Equipment in the Federal Government" (Washington: 1963). This document contains a complete listing of all ADP equipment in the executive branch except that which is used in military operations and certain other activities within DOD. Summary data on rentals paid for several past years together with projected outlays through fiscal 1966 appear in the document. In fiscal 1962 rentals paid by the Federal Government for computers and punched card equipment totaled \$179 billion.

The Motor Equipment Management Division of GSA published detailed data on the use of motor vehicles by the Federal Government. These data for fiscal 1962 are found in its "Annual Motor Vehicle Report." The report for fiscal 1962 was published in January 1963. The report indicates that during fiscal 1962 a cost of \$5.6 million was incurred in connection with vehicles leased by the Government. This figure includes the total of rental payment and fuel, maintenance and repair costs. The present reporting system does not permit the separation of rental payments.

Since the data on rentals paid for real property are on an "annual rate" basis while those on rental payments for ADP equipment are on an "actual outlay" basis, they cannot be added.

The rents received by the Federal Government for real and personal property are reported among receipt items in the Treasury Bulletin and totaled \$86 million for fiscal 1962. Twelve million dollars of the total was received for the leasing of real property of the Department of Defense; this figure is contained in the Department of Defense inventory report.

Form 1166 provides some basis for identifying the buildings leased out. If an installation's real property, in any particular category (such as "office" buildings), is completely leased out, the installation reports OL (out-leased) in the column headed "percent occupied." If that item included 10 office buildings, 1 of which was out-leased, the installation would report 90 percent in the "percent occupied" column. (This assumes all buildings have the same floor space and the nine used by the Government are 100-percent occupied which might not be the case.) In a footnote to form 1166 the leasing of the one building would be indicated. Information contained in these foot notes is not tabulated.

TREASURY FINANCIAL ASSET DATA

Data on the financial assets of the Federal Government are collected by the Treasury on the same form (220) used to obtain general ledger information on personalty. The financial assets accounts, together

with their dollar values (in millions) as of June 30, 1962, obtained from the Treasury Bulletin of November 1962 (p. 94), follow:

(1) Cash in banks, on hand, and in transit.....	\$454
(2) Fund balances with U.S. Treasury.....	16,362
(3) Public debt securities (par value).....	1,530
(4) Securities of Government enterprises.....	128
(5) Unamortized premium or discount (—).....	—11
(6) Other securities.....	5,562
(7) Advances to contractors and agents:	
Government agencies.....	46
Other.....	141
(8) Accounts and note receivable:	
Government agencies.....	2,179
Other (net).....	4,259
(9) Accrued interest receivable:	
On public debt securities.....	6
On securities of Government enterprises.....	317
Other.....	569
(10) Loans receivable:	
Government agencies.....	135
U.S. dollar loans.....	24,858
Foreign currency loans.....	2,943
Allowance for losses (—).....	—758
(11) Foreign currencies.....	2,807

These data do not coincide with those reported to the Dawson committee which are found above (see p. 21). The discrepancy is due, in part, to the fact that the Treasury Bulletin data are on a combined basis, while those reported to the Dawson committee are consolidated. Also the coverage differs for each purpose.

Detailed data on the public debt and other liabilities also exist.

TREASURY DATA ON INVENTORIES

The Treasury also collects (on form 220) data on inventories by stage of process—finished goods, work in process, and materials and supplies. Inventories as of June 30, 1962, less allowances for losses, totaled \$19.9 billion. No valuation instructions are given in the instructions for completing form 220.

III. DISCUSSION OF THE EXISTING DATA

GAPS AND OVERLAPS IN THE DATA AND ITS COLLECTION

It is likely that there still are items appropriate for inclusion in the inventory of Federal realty which have not been picked up due to incomplete property records or to the fact that some assets are not under inventory accounting control. For most of the tangible personalty, only general ledger account information exists; there is no systematic underlying inventory. Presumably, some inventory records are behind the dollar amounts reported to the Treasury but the extent to which these exist has not been studied. The need for broadening the scope of the collection process has been underscored by the Dawson committee in the introduction to its report for fiscal 1962. An analysis of the existing data indicates that progress has been made in this direction.

There are some overlapping vehicles for the reporting of wealth data. However, where these exist, the overlapping provides two or more different presentations of the same body of data. While this is

not necessary for a wealth inventory, the reports serve other purposes. An example is the collection of realty figures by both Treasury and GSA. The latter compilation is used by the Dawson committee while the former is collected as part of the Treasury's financial accounting responsibility and offers different detail. The Department of Defense reports its realty to both the Dawson committee and GSA; the breakdowns differ between the two reports.

GSA does not collect data on the value of leasehold improvements and land acquisition rights; it receives reports on donated land and land acquired at "no" cost based on the estimated value at time of acquisition, rather than the estimated present-day value requested by the Dawson committee.

DETAIL BY ASSET TYPE

Realty, including that of the Department of Defense, has been cast by GSA into asset-type categories. Realty is placed in appropriate GSA categories based on its predominate use; therefore, the figures shown for each category are not precise (the categories and their dollar magnitudes are given above).

Construction-in-progress, leasehold improvements and land acquisition rights are not broken down into the applicable asset categories, however. The data are taken from general ledger accounts with no underlying detail.

The estimated current-day values of public domain land, donated land and land acquired at no cost to the Federal Government are not broken down into these categories either; figures on the acquisition cost and acreage are broken down by asset category.

The realty of the judiciary and legislature is specifically enumerated and could readily be distributed among the existing GSA asset-type categories.

The dollar value of personalty of executive agencies, departments, and offices, except the Defense Department, reported to the Treasury, is not classified into separate categories within the machinery and equipment groupings. Furthermore, the Treasury total for "other assets" includes tangible and intangible personalty. Personalty of the Department of Defense is broken into classifications applicable to the Defense Establishment. Some equipment classes, however, such as plant equipment, would be applicable throughout the Federal Government. Personalty of the judiciary and legislature has been enumerated and could be allocated among appropriate classifications.

Detail by asset-type is the same for both the domestic and oversea property of the Federal Government except for certain instances in the Department of Defense inventory where oversea detail is not published for security reasons. The data are available for property management within the Department of Defense.

DETAIL BY REGION

Data on Federal real property for the most part can be broken down by county since the basic information is obtained by GSA at the installation level. Problems do arise, however, in regard to any installations which encompass more than one county in a State since such in-

installations report only the names of the counties and need not allocate their assets among them. Where an installation encompasses two or more States, separate asset reports must be submitted, each covering the portion of the installation's realty located in each State. Where an installation's realty is all in one county, it may be further identified by city or town when such identification is applicable.

Generally, the Department of Defense also maintains realty records on an installation basis which would yield data on the distribution by county. This information, in the realty area, is called for in the report submitted to GSA by the Defense Department.

Personalty data, collected by Treasury and the Department of Defense, are not broken down by area. Financial assets and transportation equipment, such as the automobile fleet and merchant marine of the nondefense sector and military carriers, would not meaningfully fit into regional asset accounts, but other tangibles could be so classed.

The realty and personalty of the judiciary and legislature are specifically enumerated and could be readily allocated by area. The acreage figures on land donated or acquired at no cost to the Federal Government and public domain lands are broken down on the same basis as other realty covered in the GSA report. However, the present-day value estimates for this acreage are not summarized by State.

DETAIL BY FUNCTIONAL USE

All Federal realty and personalty is broken down on a broad functional use basis. The functional use categories are the same as those employed by the Bureau of the Budget for classifying expenditures except that the category "interest," a flow, is not applicable to assets. The functional use categories, together with the value reported for each as of June 30, 1963, are presented in table 2.

TABLE 2.—Grand recapitulation of the personalty and realty of the U.S. Government, classified on a functional use basis as of June 30, 1962

[In millions of dollars]		June 30, 1962
<i>Major function and class</i>		
National defense:		
Personal property:		
Intangible assets	-----	\$916
Tangible assets	-----	143, 875
Real property:		
Land and improvements	-----	41, 207
Public domain	-----	206
Total	-----	186, 204
International affairs and finance:		
Personal property:		
Intangible assets	-----	20, 190
Tangible assets	-----	139
Real property:		
Land and improvements	-----	276
Public domain	-----	-----
Total	-----	20, 605

TABLE 2.—Grand recapitulation of the personalty and realty of the U.S. Government, classified on a functional use basis as of June 30, 1962—Con.

<i>Major functions and class</i>	[In millions of dollars]	<i>June 30, 1962</i>
Space research and technology:		
Personal property:		
Intangible assets.....		\$9
Tangible assets.....		212
Real property.....		739
Total.....		<u>960</u>
Agriculture and agricultural resources:		
Personal property:		
Intangible assets.....		6,912
Tangible assets.....		5,205
Real property.....		90
Total.....		<u>12,207</u>
Natural resources:		
Personal property:		
Intangible assets.....		440
Tangible assets.....		1,368
Real property:		
Land and improvements.....		18,560
Public domain (including mineral resources).....		17,522
Total.....		<u>37,890</u>
Commerce and transportation:		
Personal property:		
Intangible assets.....		1,092
Tangible assets.....		6,200
Real property:		
Land and improvements.....		2,250
Public domain.....		7
Total.....		<u>9,549</u>
Housing and community development:		
Personal property:		
Intangible assets.....		4,316
Tangible assets.....		338
Real property.....		512
Total.....		<u>5,166</u>
Health, labor, and welfare:		
Personal property:		
Intangible assets.....		3
Tangible assets.....		341
Real property:		
Land and improvements.....		234
Public domain.....		(1)
Total.....		<u>578</u>

¹ Less than \$500,000.

TABLE 2.—Grand recapitulation of the personalty and realty of the U.S. Government, classified on a functional use basis as of June 30, 1962—Con.

<i>Major functions and class</i>	[In millions of dollars]	<i>June 30, 1962</i>
Education :		
Personal property :		
Intangible assets.....		\$1, 403
Tangible assets.....		2, 399
Real property.....		116
Total.....		<u>3, 918</u>
Veterans' benefits and services :		
Personal property :		
Intangible assets.....		1, 859
Tangible assets.....		306
Real property :		
Land and improvements.....		1, 651
Public domain.....		2
Total.....		<u>3, 818</u>
General government :		
Personal property :		
Intangible assets.....		15, 158
Tangible assets.....		635
Real property :		
Land and improvements.....		2, 753
Public domain.....		3
Total.....		<u>18, 549</u>
Summary :		
Personal property : ²		
Intangible assets.....		52, 298
Tangible assets.....		161, 018
Real property :		
Land improvements.....		68, 388
Public domain.....		17, 740
Grand total.....		<u>299, 444</u>

²The totals for tangibles and intangibles in the summary and component function are not exact because the "other assets" account, included above with intangible personalty, contains some tangibles, notably the collection of the Library of Congress.

Source : "Federal Real and Personal Property Report," December 1962, pp. 14 and 15.

The totals by functional use are computed for the Dawson committee by the Treasury. The method used is to allocate the assets of each bureau according to the "account" code given for the bureau by the Bureau of the Budget. The accounts are coded by functional use. In some cases, more than one account code is applicable to a bureau. When this occurs, all of the tangible assets of that bureau are put into the most important (largest expenditures) functional class. The resulting inaccuracy stems from the fact that installations do not report any functional breakdown of their assets. Unless this were done, inaccuracies would be present in the data.

In addition, there is some question as to the fineness with which functional use lines can be drawn. Can a line realistically be drawn as to whether a particular asset is properly classified in "Space re-

search and technology" or "National defense"? Perhaps problems of this sort are not pervasive enough to provide any significant distortions of the data, but they do deserve mention.

DETAIL BY CONTROLLING AGENCY

The reports on realty and personalty are submitted to GSA and the Treasury by each agency so detail by agency is a natural consequence.

In addition, the buildings and structures and facilities of the large agencies are broken down by bureau (military department and defense agency in the case of Department of Defense). The figures for each bureau are subdivided by location—United States, outlying areas, and foreign countries.

LEASED ASSETS

The GSA report on real property leased to the Federal Government, does not indicate the value of the assets leased. However, information on the value of the assets presumably would be obtained only from the lessor.

The survey is broad, and covers individually, all leases calling for rent, on an annual rate basis, of \$2,000 or more (\$500 or more for leases covering land only).

Rental payments are not classified by asset type. However, since leases calling for rental payments at an annual rate of \$2,000 or more are reported separately, such a breakdown might be obtainable for a substantial number of leased assets. Problems could arise as a result of a single lease, calling for rent in excess of \$2,000, which covered two or more types of tangibles such as a school with research and development facilities. However, the rental payment could be allocated between these two use categories based on the square feet of floor space allotted to each use.

Except in the cases of automatic data processing equipment and motor vehicles, there is no indication of the payments for machinery and equipment leased to the Government.

Statements of Federal receipts published by the Treasury, indicate the rents received by the Federal Government. In some cases, the real property leased out by the Government, can be identified from form 1166. They are not tabulated, however.

If the rentals paid for realty by the Federal Government during fiscal 1962 were capitalized at a 10 percent rate, their value would be \$2.2 billion, 3.7 percent of value of federally owned realty on June 30, 1962. Federal agencies are generally not permitted to lease assets the annual rental for which exceeds 15 percent of the cost of purchase, so the 10 percent assumed capitalization rate may not be too far from reality. When the total assets leased by the manufacturing sector during 1957—latest information available—are valued by capitalizing the rental payment for that year at 10 percent, the resulting figure is \$14.1 billion or 13 percent of the gross book value of manufacturers' depreciable assets on December 31, 1957. The 3.7 and 13 percent are not comparable because the former applies only to realty, the latter to all fixed assets. However, a very high rate of machinery and equipment rental by the Federal Government would be needed to bring the

percentage at all near that of the manufacturing sector. Computer rentals, \$179 million in fiscal 1962, if capitalized at 10 percent, would increase leased assets by \$1.8 to \$4 billion, 2 percent of the realty and tangible personalty of the Federal Government.

If rentals received by the Federal Government during fiscal 1962 were capitalized at 10 percent, the leased assets would be valued at \$860 million. (The values of assets leased "in" and "out" are not comparable due to differences in the methods of computing rents paid and rents received.)

In addition to their relative unimportance in the Federal sector, leased assets are difficult to identify and value. Unless an arbitrary capitalization procedure, like that employed above, is used, it is impossible to establish the value of assets leased "in" without questioning the lessor. If the capitalization method is to be applied nonetheless, other difficulties arise. Leases vary in the degree of repair and maintenance to be performed by the lessee and that to be performed by the lessor, the cost of which would presumably be included in the rental payment. In many cases, land and improvements are leased as a unit for which one rental is paid; this would create an allocation problem if detail by asset type were to be collected. Some Federal rental payments include subsidies, especially in connection with assets leased from foreign countries.

VALUATION METHODS

There are four basic methods of valuation reflected in the figure of \$299.4 billion reported by the Dawson committee as the value of Federal realty and personalty on June 30, 1962. Historical cost data are available for real property and principal personalty in the inventory. Standard pricing, reflecting replacement cost is the basis for valuation of stock and appropriated fund inventories of the Department of Defense. Realty under the jurisdiction of the Architect of the Capitol is valued at replacement cost. Present-day value estimates have been made for public domain and land donated or acquired at no cost to the Federal Government. These estimates have been based primarily on the commercial value of similar land in the proximity of the land to be valued. Mineral resources have been valued by capitalizing expected future income streams from their sale. The tangible-asset classifications, which reflect current-day values in some form together with construction in progress, account for 22 percent of the \$299.4 billion total value of Federal property as of June 30, 1962 reported by the Dawson committee.

The goals of the Dawson committee, established as a result of hearings and discussions with valuation specialists over the past few years, are to adopt "estimated replacement cost less estimated depreciation" as the valuation yardstick for buildings and structures; and, to value land, which is theoretically considered to be irreplaceable and non-depreciable, and mineral resources at prices reflecting current market value. The committee decided to accept valuations of personalty at acquisition cost because of the relatively short life of the tangibles and the work which would be needed to revalue the large number of items involved. Nevertheless, the inconsistency of original cost and present-day valuations is apparent.

The use of the "estimated replacement cost" basis obviates the necessity of answering an important question in assigning values to Federal properties: Shall such properties be priced based on the stream of products and services they produce when owned by the Federal Government or on the value of such properties if they were converted to use by the private sector? The former basis is probably more appropriate but is not generally feasible because the established values would be purely subjective in most cases. The latter basis would yield a more objective measurement standard, but because of the special nature of Federal Government assets, federally owned and operated facilities valuable to the Nation might have little value if transferred to the private sector. Because replacement cost calculations are based on the value of inputs, they are independent of use or value of output. (However, the value of total input per unit of output is equal to the price of a unit of output, including normal profit, under conditions of perfect competition in the long run with perfect foresight). Where replacement cost cannot be used as in the case of land, the question of which use—public or private—should be the basis for valuation remains. The Dawson committee concluded that pricing in such cases should be based on the "commercial value" of comparable assets in the private sector.

The Department of the Interior has conducted a pilot study on present-day valuation methods at the request of the Dawson committee, which approved the guidelines established for the study. The pilot study used the GSA collection vehicle (form 1166), amended to ask for estimated current-day values instead of cost. The amended form was requested as of June 30, 1962, from all Interior installations located in the States of Washington, Oregon, and Idaho. Excluded were the public domain lands and trust properties of the Bureau of Indian Affairs, but not the improvements thereon. Realty was broken down into three categories. The definitions of these categories and the valuation methods used for each are given below:

1. Land value based on recent selling prices of comparable properties, or the capitalization, at currently relevant interest rates and periods of years, of rents received for use of the land or prices received for products of the land.

2. Nondepreciable properties—those structures and improvements which "(1) are generally considered inherently unmarketable and for which no market data are available on which to base current-day values, (2) because of increased current-day construction costs have not lessened in value, and (3) have not materially deteriorated since date of acquisition or completion of construction," valued at acquisition or construction cost, actual or estimated if unknown, to the Federal Government.

3. Depreciable properties—buildings, structures, and improvements which "(1) are generally considered marketable and/or for which market data are available on which to base current day values and/or (2) have depreciated in value since date of acquisition or construction due to deterioration, obsolescence, etc.;" valued at estimated "reproduction" (sic) cost less depreciation.

The conceptual framework of the pilot study only partially meets the Dawson committee's purpose in requesting it because of the inclusion of the "nondepreciable property" category. Fifty-six percent of

the assets surveyed fell into this classification. The justification for the use of this category seems to be that for many assets estimated replacement cost less depreciation is about equal to acquisition cost; therefore, the data collection effort could be reduced. However, only the second condition for the nondepreciable category relates to this justification. The third condition amends the second by requiring that an asset cannot be considered "nondepreciable" if it has "materially deteriorated," even if the amount of deterioration (depreciation) is offset by the increased cost of replacing that portion of the asset which is undepreciated. The first condition—lack of market data—presents a totally different constraint. This constraint would be desirable if the pilot study procedure required that assets be valued at market prices. However, a replacement cost estimate need not be justified on the basis of marketability since there still may be the need to replace an unmarketable asset.

Therefore, if the goal of the committee is estimated replacement cost less depreciation, only the second condition is necessary to get the desired figure. Furthermore, strictly speaking, replacement cost must be estimated to insure that the second condition is met.

The value of assets on June 30, 1962, calculated in accordance with the requirements of the pilot study, showed an increase of 5.8 percent over the acquisition cost figures reported to the Dawson committee for the same date. While this increase is relatively small, it should be pointed out that the excess of estimated present-day value over acquisition cost for buildings and structures and facilities was 8.2 percent. For land, present day value was 39 percent less than cost.

The 5.8 percent aggregative difference, therefore, tends to conceal interesting changes in the components. Furthermore, the 8.2 percent excess of present-day value over acquisition cost for buildings and structures and facilities obviously does not take into account differences in these values for the tangible assets excluded from the survey.

A further gage against which to measure the validity of the present-day value estimates obtained in the Department of the Interior pilot study are the replacement cost estimates employed by the Department of the Army for internal planning purposes. The method used to make these estimates involves computing the average unit cost of replacing principal items of real property at current prices. The average unit costs are adjusted by an index computed to reflect the degree to which regional costs vary from a benchmark area at a certain point in time. Such indexes have been developed when needed by the Department of the Army and when no better data has been available. Thus, national average cost after adjustment for regional differences, could be directly applied to the physical data to obtain replacement costs by region. Estimates based on this method indicate that, currently, replacement cost estimates are about three times the acquisition cost, which seems somewhat high. If current replacement cost per unit estimates for barracks, for example, include recreational rooms which were not part of original facilities, the Department of the Army estimates of replacement cost would be overstated. Price indexes are usually adjusted for these differences but are not adjusted for quality changes.

The Department of the Interior study adds little to an assessment of the feasibility of the valuation goal of the Dawson committee—"esti-

mated replacement cost less depreciation." It does point out one important fact, however: When shortcuts are employed (such as establishing a nondepreciable category which need be valued at book cost only) the resulting estimates suffer.

On the other hand, the expenditure of large amounts of funds to achieve a high degree of precision in the estimates is not desirable or necessary. It was estimated by Mr. Hardy W. Jacobs, NAI, chief of real estate appraisal for the Corps of Engineers that it would cost \$17 million and take 2 years to place current-day values on realty of the Department of the Army if detailed appraisal techniques, including on-site inspection, were used. Army realty, including civil works of the Corps of Engineers, is located at 2,527 installations throughout the 50 States and embraces 17.2 million acres of land with 184,021 buildings containing 863 million square feet of enclosed area. This realty, except for public domain and donated land was valued at \$15.7 billion, based on acquisition cost on June 30, 1962. Thus, appraisal costs are about one-tenth of 1 percent of the cost of the realty involved. This compares with the \$4,255 and 1,043 man-hours needed to complete the pilot study of the Department of the Interior which covered realty with a book value of \$1.414 billion, equal to a cost of three one-thousandths of 1 percent of acquisition cost.

DEPRECIATION

The asset values reported by the Dawson committee are gross of depreciation. Depreciation is calculated only by Federal business-like enterprises, but is not netted against the gross figures these enterprises report to GSA and the Treasury.

Depreciation may result from use of the asset, from idleness which causes deterioration, or from obsolescence. For many physical assets, particularly the military hardware of the Department of Defense, depreciation may be retarded or prevented entirely, by expenditures which preserve the value of the asset. However, all of these expenditures cannot properly be termed "repair and maintenance" which is an "expensable" item. The line between "repair and maintenance" and major part replacements which should be capitalized rather than expensed is difficult to draw. Existing tax laws provide some basis for making the distinction. However, they are largely inapplicable to Department of Defense property.

In this connection consider an army tank as an example. This vehicle may be at 100 percent of its operational efficiency despite its age and use. However, perhaps only the shell represents original equipment; the original components may have been completely replaced. The question of what percent of the expenditures represent "normal" maintenance and repair and what percent represents the replacement of parts which were "fully depreciated" is difficult to answer. (Items which fall into the latter group should of course, be capitalized.)

The Department of Defense, for planning purposes has established a guideline for realty which acknowledges the difference between normal repair and maintenance and the replacement of physical capital. Thus paragraph III, A, 5, g, (2) of "Department of Defense Instruction: Inventory of Military Property" (No. 4165.14 dated Feb. 20, 1958)

provides, in connection with the determination of whether a facility is usable or not, that :

N (Unusable)—indicates the condition of a facility which is presently un-serviceable and has deteriorated beyond economical restoration or constitutes a danger to the health or safety of personnel, or to equipment housed therein. It also includes facilities which are presently being used but for which the annual maintenance cost is in excess of 20 percent of the current replacement cost.

This directive acknowledges that depreciation is an on-going process, but, in essence, provides that it only be taken into account when that depreciation has reached a certain point.

For many types of military plant and equipment obsolescence is a more important factor than physical depreciation. Technological change may substantially, if not fully, diminish the usefulness of a piece of equipment even though the equipment is still fully capable of performing the mission for which it was designed. Furthermore, because of its special function, the equipment may not have an alternative use. It is impossible to determine obsolescence in advance; it is only measurable after it has occurred. But past experience furnishes a guideline to the future.

Since the depreciation on most federally owned property is not calculated, the figures contained in the Dawson committee report are largely "gross." (If the rise in the replacement cost of these assets just offset their loss in value due to depreciation, the current replacement-cost value would be given by coincidence.)

For those Federal enterprises which record depreciation, the depreciation reserves averaged 17 percent of the gross depreciable asset account on June 30, 1962. For TVA it was 22 percent, compared with 20 percent for the 225 largest privately owned electrical utilities. This difference probably does not indicate differences in useful life estimates between comparable private and public activities; if differences exist, however, they should be reconciled.

IV. CONCLUSIONS AND RECOMMENDATIONS

The working group recognizes the important advances in property accounting made by the General Services Administration and the Department of Defense and in the collection and reporting of balance sheet data by the Treasury. The direction given by these departments and the cooperation of the individual respondent agencies have contributed significantly to the excellent framework which currently exists for obtaining wealth data and current-day value estimates.

The working group likewise recognizes the value of the important steps taken by Congress generally, and by the House Committee on Government Operations in particular, to support and encourage the inventory of Federal Government assets, to compile the data in a single, accessible report, and to stress the need for estimating current-day values of realty.

The recommendations of this group are not directed specifically to the House committee, although the committee may wish to take cognizance of some of these recommendations. The Federal Real and Personal Property Inventory Report is designed for particular uses, whereas the Wealth Inventory Planning Study is looking toward eventual wealth statements and finally balance sheets for the Federal Government as part of the national economic accounts, broadly con-

ceived. Thus, the concern here is with the sorts of basic data required for this broad purpose, and with significant aspects of the final estimates obtained. The recommendations relate to the agencies collecting and assembling the basic asset data for the Federal sector, and to the statistical agency that might be called upon at a later stage to process the data into balance sheet and wealth estimates.

The recommendations which will be discussed in detail below refer both to conceptual issues and statistical problems of making the actual estimates. The conceptual matters include those of defining the sector and determining the valuation appropriate for the various types of capital stocks. The statistical problems include the additional data which must be collected, the amount of detail in which estimates should be published, and the information which the agency processing wealth data will have to obtain, through pilot studies and feasibility tests, in order to transform the raw data into final estimates. The distinction between the additional data which must be collected and the task of processing the wealth data is important. Obviously much of the burden of providing data to fill current gaps will fall on the agencies holding the relevant tangible assets, although sampling techniques and other methods are recommended for use wherever possible to reduce this burden. On the other hand, responsibility for revaluing the basic data to appropriate current-day values rests with the agency that would be called upon to prepare wealth estimates for the economy as a whole.

While the recommendations of the working group are discussed fully in the remainder of this report, the major ones can be summarized here. Overall, the working group recommends that wealth estimates, reflecting current-day values, be prepared for the Federal sector on both a use and ownership basis, in appropriate detail by agency, functional use, geographical area and asset type. To achieve these objectives, three additional major bodies of data are required to supplement the data which are currently available. First, there is need for an inventory of personalty, similar to that now conducted by GSA for realty, probably on a one-time basis. Second, additional inquiries on rents paid should be added to the current GSA inventory of assets leased by the Government. Third, selected age data for federally owned tangibles should be obtained on a sample basis. The fulfillment of these three requirements will call for the cooperation of the responding agencies. The transformation of these data to current values would be the responsibility of the agency designed to prepare estimates. This agency would conduct special studies designed to determine lengths of life of various depreciable asset types and their associated depreciation curves. Also, it would explore the methods of valuation for certain inventories, such as those of the CCC, and examine and determine the adequacy of price indexes needed for revaluation. Other programs needed to prepare the estimates, including tabulation and publication, would be its responsibility. Thus, there would be no need for reporting agencies to change their accounting or property management techniques to reflect current-day values or depreciation.

In addition to the recommendations relating to filling data gaps and valuation, the group has made recommendations concerning appropriate detail—by agency, functional use, geographic area and asset

type. The working group mainly favors detail consistent with that obtained for the rest of the economy, so that geographical and asset type totals can be shown across sectors. In many cases, as indicated, detail on Federal Government tangibles is more than adequate; in others the working group has recommended feasibility tests to see if more detail can be gotten.

The full set of working group recommendations are set forth and elaborated in the remainder of the report.

SCOPE OF THE FEDERAL GOVERNMENT

By agency

Generally speaking, the scope of the Federal sector should include all organizational units whose programs or activities are substantially formulated and administered by Federal agencies or appointees. Mere financial contribution or support is not a sufficient criterion, by itself for including a unit in the Federal sector. Within the sector, the assets of Federal corporations and agencies conducting business-type activities, as defined by the Department of Commerce for purposes of national income accounting, should be shown separately from those for "general government."

The above definition would exclude from the Federal sector all additions to State, local, and private assets such as highways, hospitals, public works, merchant ships and schools, that are financed with Federal funds, but over which the Government does not have significant control. It would include certain retirement and social insurance trust funds (excluding the unemployment trust fund) whose assets are administered by the Federal Government. It would also include the Federal Reserve System and the five Government-sponsored enterprises which, even though they are more independent of Federal control than the regular Federal agencies, are, nonetheless, Federal Government instrumentalities responsible for carrying out public policies. The wealth of such organizations should be shown separately from other agencies of the Government. The definition would include assets in the form of library, museum, and art collections, whether owned directly by the Federal Government or by its agencies serving as trustees. It would not, however, include art collections or other assets loaned to Federal Government agencies by non-Federal owners. Assets in the form of loans made by other sectors of the economy but guaranteed by the Federal Government should be included in those sectors which made the resource allocation. The foregoing examples are not intended to be exhaustive but are cited to indicate the manner in which the general definition is to be applied.

By type of property

The wealth inventory should cover the realty, personalty and financial assets of the Federal sector. It is recommended that the terms "realty" and "personalty" be supplemented by the major categories of "land," "mineral resources," "buildings," "structures and facilities," "machinery and equipment," "inventories," and "financial assets." These classifications would serve to distinguish between reproducible and nonreproducible assets, real and financial assets, depletable and depreciable assets.

The value of easements and rights-of-way held by the Federal Government should be included as they are currently. However, since they are essentially claims, they should be included with intangibles. A study might be made of the feasibility of getting additional detail on these assets. The value of the underlying property rights should, of course, be reported and allocated to the owning sector. This raises the question of whether the values reported by the owning sector take into account the reduction (or increase) in the value of the underlying property because of the easement.

Leasehold improvements should be included, as is currently done, with assets owned by the Federal Government; this treatment is valid if it is assumed that improvements will be fully depreciated at the time the lease or easement expires. This assumption may result in inaccuracies but these may be offset by the added work which would be involved in allocating improvements to leaseholds and easements among the sectors owning the underlying property.

By location

The inventory of Federal property should continue to include that held in outlying areas and foreign countries as well as in the 50 States. Holdings in outlying areas and foreign countries should be separately identified and segregated by country, as they are now. (A country classification may not be feasible for certain property of the Department of Defense for security reasons.) Domestic realty should be tabulated by county, the geographical basis on which most property is currently reported to GSA, thus permitting various regional as well as State groupings. A feasibility study should be made to see if regional detail for tangible personalty—machinery and equipment and inventories—is meaningful despite the portability of the assets involved.

By functional use

Detail by the broad functional use categories of the Bureau of the Budget should be maintained. Such detail is useful not only in the Federal budgetary process but for general analytical work as well. Assets are presently allocated among functions by predominant use at the bureau level. The working group recognizes that these categories are designed to present a general picture and cannot be meaningfully made more precise for several reasons. First, an asset which is used in more than one functional use category at any level—agency, bureau, or installation—cannot precisely be allocated among them, while it can be classified according to its predominant functional use. Second, the functional use categories cannot be cast into clear-cut classes. Difficulty is inherent, for example, in trying to classify some assets as being used either for “national defense” or “space research and technology.” Third, functional use categories will change over time with shifts in the role of the Federal Government and the needs of the Nation.

DATA REPORTING AND COLLECTION

The group endorses the basic reporting systems developed by GSA for real property, by the DOD for its real and personal property, and by the Treasury Department for financial assets and liabilities. The use of the “installation” as the basic unit by GSA permits the collection of considerable detail from underlying property records and,

through the county coding system, permits the tabulation of real property data by regions. On the other hand, it is appropriate to collect financial data by those agency organizations and funds with separate accounts as the Treasury does currently; any further break would be artificial—just as in the business economy, financial claims data are obtained by company, while tangible assets may be obtained by establishment or plant.

To supplement the present system, however, a reporting system should be devised to facilitate a more useful inventory of tangible personalty recommended elsewhere in the section. This is not to suggest that the Treasury Department drop the tangible asset items from its "Statement of Financial Condition." Rather, the need is for greater detail for all tangibles, which can best be obtained by extending the scope of the GSA-type survey to include machinery, equipment, and inventories as well as real property. The "tangible" classification, which is of great significance in wealth estimation, cuts across the conventional "realty" and "personalty" classifications now underlying the reporting systems.

DETAIL BY ASSET TYPE

The classifications which are used by GSA to delineate the various types of land, buildings, and structures and facilities should be maintained. Mineral resources should be shown separately. In addition, asset classifications should be established for machinery and equipment and inventories. The primary objective of the classification should be to reflect the major types of tangible personalty used by the Government. A pilot study, possibly to be undertaken by GSA, would be required to determine the major types of nonmilitary equipment in the possession of Federal agencies. If possible, these should be grouped by the categories used in the gross national product estimates for "producers of durable equipment," or by combinations of these categories. However, when necessary for achieving the objectives of the overall Wealth Study, additional classifications should be established. Thus, it may be necessary to show separately the stock of transportation, construction, communication, and power-producing equipment, which might be a small percentage of total Federal property, in order to allow the national stock of such classes of equipment to be measured.

Classification for the machinery and equipment of the Department of Defense, currently in use, are appropriate to maintain, since these assets are usually quite different from those used in other sectors of the economy. Where it is relevant and practical, however, Department of Defense machinery and equipment which falls into the asset categories established for the rest of the sectors should be reclassified into those categories by the agency processing wealth data.

DETAIL BY REGION

Current practices of the GSA enable it to classify the real property reported to it by county for the most part. This basis of reporting should be continued. If a feasibility study so indicates, this classification should be extended to tangible personalty. The regional coding system used by GSA should be adopted generally since it would facili-

tate the handling of the data and insure uniform reporting. For Federal property located outside the 50 States, the current country breakdown is recommended.

It is necessary to exempt the Department of Defense from reporting weapon data by counties, and by country, because of security considerations.

Where the assets of an installation encompass more than one county in a State, a method should be devised by the agency preparing wealth estimates to permit the allocation of these assets among the counties.

LEASED ASSETS

In order to properly identify the assets responsible for output of goods and services in the Federal sector, assets leased to and by the Federal Government should be enumerated. This would make it possible to adjust the stock of federally owned assets to arrive at the value of assets actually used in the Federal sector. However, because of the difficulties associated with valuing leased assets, especially those leased "in" and their relative unimportance in the Federal sector, the approach should be broad.

These estimates of leased assets would permit leasing in the Federal sector to be dovetailed into data on leased assets in the other sectors for which it will be collected. For this purpose, it is recommended that data on rental payments by asset type be collected. (See above for a discussion of asset types.) It is also suggested that more data on out-leased assets, by type, be obtained by GSA on form 1166, if it is determined that this is feasible.

VALUATION

In view of the objectives of the Wealth Study as a whole, the group agrees in principle with the desirability of working toward some type of current or present-day values for Federal tangible assets—land, buildings and structures, machinery and equipment, and inventories. In the first place, current values make it possible to compare wealth across sector lines, as well as across agency or functional lines within the Government sector. Second, current valuations of capital goods yield consistency among vintages, and provide meaning in terms of future productive capacity.

The majority of the group feels that it is highly desirable to revalue machinery and equipment as well as structures to a replacement cost basis to provide consistency, but realizes that it may not be feasible for the former, due to the many individual items involved. A minority of the working group does not favor revaluation of machinery and equipment on the grounds that they have shorter lives than plant, so that use of original cost involves less distortion relative to current values. However, the reasonableness of collecting sample data needed to revalue machinery and equipment should be explored.

It should be generally understood that the group does not advocate changing basic agency accounting procedures. Rather, in the case of fixed reproducible assets, the collecting agency would obtain the basic data needed for revaluation—data by type, by age, as discussed below—on a sample basis from existing agency records.

The majority of the group favors the estimation of stocks of depreciable assets net, as well as gross, of depreciation. Others feel that depreciation has less relevance to public assets than to business assets, especially in the category of weaponry. Those who favor the estimation of depreciation also advocate obtaining length-of-life information, except for weaponry, as well as relevant price series for revaluation purposes, by the estimating agency.

The working group strongly endorses the use of sampling techniques as a vehicle for arriving at the valuation bases recommended above. Sampling techniques have proven to be highly useful in statistical estimation. These methods should be applied whenever the cost of collecting—on a census basis—the data necessary for revaluation is deemed too high.

Land

The current value of land can be measured in a number of ways. The Public Lands Subgroup of the Natural Resources Working Group has recommended the establishment of regional appraisal boards.

The establishment of valuation guidelines for appraisal boards or other valuation units requires further investigation. One method should be devised for each type of land with a view toward consistent valuation among the controlling agencies. The method or methods recommended will govern the data collection and processing procedures. If the information required for valuation varies widely by type of land, or requires specific knowledge obtainable only at the controlling agency level, or requires information not readily transmitted as part of the overall data collection process, valuation might have to take place at the agency or perhaps installation level. In that event, the valuation technique must be one which insures consistency in interpretation and usage. Otherwise, it would be preferable to devise generalized valuation guidelines which could be employed, together with a simple body of data collected from each controlling agency, by the regional appraisal boards.

For continuing wealth estimates beyond the benchmark inventory the formula adopted for valuing land would have to be applied every year. This requirement should also enter into the selection of the method. One way of handling the problem would be to construct appropriate price indexes for broad categories of land, using sample data, which would be used to bring benchmark current-day values up to date.

Buildings, structures, and facilities

Buildings, structures, and facilities should be valued at replacement cost, gross, and net of depreciation, particularly in view of the long lives of most of this type of capital. Such revaluation is properly the task of the agency processing wealth data. Historical cost figures offer no basis for comparison—intertemporal or spatial—although they do furnish the basis for revaluation. Market values would be difficult to find in the case of many Federal buildings, and would pose the problem of value to the private versus the public sector. Capitalizing expected benefits would involve too much subjectivity. If the asset is useful to the needs of the Federal sector, then replacement cost would indicate the size of the expenditure

required to continue the stream of goods or services the asset had been producing.

Replacement cost estimates could be made by a data-processing unit if it had available figures on historical cost and age and an appropriate price index. The only additional piece of information required to accomplish the replacement cost valuation would be an amendment to the reporting requirement on age. This amendment could be incorporated on a sample basis only. Currently, installations may, and do, report assets aggregated by type on each line of GSA form 1166. Thus, an installation may report all of its office buildings on the appropriate line and give the total acquisition cost for the category as a whole. Under "dates acquired," the report may state a period of years (often lengthy) over which these "office" buildings were obtained. Separate reports for each "office" building would increase substantially both the number of line items required of respondents and the processing task of the collection agency. As a compromise, it is recommended that total cost for each structural type of asset be reported by groups of years. Capitalized improvements to a reproducible asset, subsequent to its acquisition, should be reported by groups of years during which the improvements were made.

One basis for grouping years, which should be explored, would be to isolate periods, if existent, during which the trends in the prices of an asset group were similar; i.e., perhaps the office building price index increased about x percent per year in each year between 19 y and 19 z . This method would tend to minimize the errors resulting from averaging yearly price indexes. Another possibility would be to center groups of years on periods, if existent, when expenditures on this type of asset were larger than usual. Regardless of the method adopted, the group feels that where expediency so dictates, sampling techniques should be used, and will yield results just as acceptable as other methods.

An alternative method of arriving at replacement cost, suitable only for property measurable in a standardized physical unit, is that used by the Department of the Army. This method, described more fully above, requires that the current cost of constructing a physical unit (viz, a square foot, for buildings) be determined by type of asset and multiplied by the number of units in existence for each. This method has disadvantages, however, if depreciation is to be computed. (The recommendations on depreciation appear below.) Also, it may be difficult to find enough physical common denominators for the varied physical assets of the Federal Government, especially assets other than buildings.

Machinery and equipment

A majority of the working group feels that a "one-time" inventory required to get information on the dates or periods of acquisition and types of machinery and equipment necessary to revalue these assets, is worthwhile. Some members of the group, however, oppose assigning replacement cost or any other current-day value to machinery and equipment.

The arguments for replacement cost computations, made by the wealth-data-processing agency, follow. Machinery and equipment owned by the Federal sector could be compared with other Federal

holdings and similar holdings of the private sector. Sufficient information on asset-type and useful lives could be gathered from a "one-time" inventory to enable the agency preparing the wealth data to keep estimates up to date using only flow data. The information on age and equipment type could conceivably be of use in property management and market demand analysis.

The minority view is that the difference between replacement cost (especially depreciated replacement cost) and original cost is not significant because of the short lives of the items involved. Furthermore, it is argued that the information on replacement cost would not have uses commensurate with its cost in terms of the burden placed on the respondent.

To reduce the burden on the respondent, the practice used by the Defense Department might be followed. This practice is to exclude from the inventory all machinery and equipment items below a certain value. A special study should be made to determine the extent of the inaccuracies in the wealth estimates introduced by use of this procedure and also, concurrently, to determine the cutoff value, if any. In addition, the fact that approximately 29 percent of the value of Federal machinery and equipment on June 30, 1962, primarily that under the control of the Department of Defense, did reflect current values reduces the task even further.

A desirable format for the basic inventory of machinery and equipment would be parallel to that employed by GSA in 1954-55 for real property, but with the modification suggested above to show cost by groups of years of acquisition for each type. Following the basic inventory (to be accomplished by 1970), annual reports of additions or retirements would keep the inventory up to date. An assumption that retirements were always of the oldest vintage, necessary to maintain a running picture of age-composition, may not generally be correct. This suggests the need for periodic inventories, possibly once a decade. While this would be the desirable procedure, sampling techniques, discussed above, could be substituted, if necessary.

Price indexes

Studies should be made by the agency processing wealth data to determine the extent to which currently available price indexes for the private sector are applicable to the Federal sector, in view of the probability of differences in the product mix between the two sectors. Special indexes should be constructed where existing ones prove to be inadequate.

Depreciation

It is recommended that the agency processing wealth data compile capital stock estimates both gross and net of depreciation. However, it is not recommended that depreciation be calculated for weaponry of the Department of Defense. This means that only gross stock figures, not net stock, will be available for the economy as a whole.

The concept of depreciation is widely recognized by economists and businessmen. A proper estimate of business costs must include depreciation and the imputed interest on depreciated capital stock. Such computations are necessary in projections used to choose among alternative investments.

Federal Government accounting practices do not recognize depreciation except for Federal enterprises. For purposes of consistency with wealth estimates for the private sector, depreciation on Federal property should be computed. This calculation would be made by the unit making the wealth estimates, because Federal operational organizations would not have the information needed to calculate depreciation; nor is it recommended that existing Federal accounting practices in regard to depreciation be altered.

The calculation of depreciation would require no additional information other than that required to compute replacement cost—book cost figures and groups of years of acquisition. This information, together with the results of studies to be made to determine the useful lives of various types of property, would be sufficient to make the depreciation calculation. Where Federal property has counterparts in the private sector, the results of studies of useful lives in the private sector could be applied. For property peculiar to the Federal sector, whether because of its type or the use to which it is put, additional useful life studies would have to be made by the unit preparing the wealth estimates.

Some members of the group stressed the fact that many types of military equipment are maintained at 100 percent of operational efficiency. Furthermore, in many instances they are maintained in this state of readiness even after they are made obsolete by newly designed equipment; they are used either for training purposes or as reserves.

Other members felt that this view fails to give consideration to the repair and maintenance expenditures which properly should be capitalized in keeping equipment at 100 percent of operational efficiency, and to the probable increase in legitimate maintenance costs with time. It was also felt that technological advance is a potent force causing the relative service value of aging weapons to decline.

Inventories

Inventories should be valued at current prices. For many types of inventories, book value is close to current market and is acceptable. Inventories held by the Commodity Credit Corporation and stockpiles of strategic materials are examples of holdings which do not reflect current-market value. Special studies are recommended to determine the current-day values of these types of stocks.

FINANCIAL ASSETS

The working group recommends that data on the financial assets and liabilities of the Federal Government, together with data on tangible wealth, be cast into balance sheet form. The Group recommends this presentation so that the data on the Federal sector can be linked to data on other sectors of the economy for which balance sheets will be constructed. The group does not feel, however, that a Federal balance sheet has any analytical role in discussions of the size of the Federal debt and use for that purpose is to be discouraged.

Detail on financial assets by type should conform to those recommended for use in the private sector by the Financial Claims Working Group. The accounts provided for on form 220 by the Treasury appear to be flexible enough to recast along private sector lines. If not,

some accounts on form 220 will have to be broken down. At the time that the coverage by agency of form 220 was increased to comply with the Dawson committee's request for asset data, liability information was not required of the additional agencies which then had to report. Information on the liabilities of these agencies should be collected.

Financial assets and liabilities should be shown for the same agencies for which tangible asset data are to be shown. It is recommended that they be shown both gross and net of interagency claims, as they are on form 220.

The financial assets of Federal Government trust funds, mainly Federal Government securities, should be shown separately. The liabilities of these funds to the household sector are difficult to measure and subject to change by law.

Most financial assets and liabilities can be valued at the amount at which they are carried on the books. For some Federal claims on foreigners, such as soft currency loans, valuations are much more difficult. The recommendations of the Working Group on Net Foreign Claims should be followed in instances such as these.

SUPPLEMENTAL STATEMENT BY JOSEPH D. COHN

EXECUTIVE OFFICE OF THE PRESIDENT,

BUREAU OF THE BUDGET,

Washington, D.C., February 25, 1964.

Mr. JOEL POPKIN,

Secretary, Working Group on Federal Government Wealth, Wealth Inventory Planning Study, George Washington University, Washington, D.C.

DEAR JOEL: I have reviewed the draft report of the Working Group on Federal Government Wealth and attached are a few comments and suggestions which you may wish to consider in any further drafting and editing of the final report.

As you know, I have serious reservations concerning the usefulness from an operating and program standpoint of a current value inventory of Federal real and personal property. I am also concerned about the cost of such an effort. I will not presume to influence the group's conclusions on this point since I realize its objectives involve the need for economic indexes which I am not qualified to evaluate fully. I will not object to this feature of the report so long as it is understood clearly that my role in the group was primarily that of a technical adviser on the availability and reliability of data on real and personal property.

Sincerely,

JOSEPH D. COHN,

*Management Analyst, Property and Supply Management Branch,
Office of Management and Organization, Bureau of the
Budget.*