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To avoid this outcome, the National Income Division departs from the usual procedure in deriving income originating in financial intermediaries. The departures are basically of two types. In the case of commercial banks and investment trusts, an entry is made on the debit side of the accounts for imputed interest paid depositors, equal in amount to the excess of property income received over interest paid, and a corresponding amount, assumed to represent the value of services rendered to depositors without explicit charge, is entered on the credit side. The effect of these adjustments is to cancel out the original excess of interest receipts over payments, yielding a figure for income originating in banking equal to wages plus profits. In the second procedure, followed in the case of life insurance companies and mutual financial intermediaries other than life insurance, the enterprise is, in effect, treated as an association of individuals. Its expenditures for labor and other cost purchases and its saving are treated as though made directly by individuals, while items such as death-benefit claims and premiums are excluded from the income and product flows, since such transactions are viewed as interpersonal transfers.

These procedures have been criticized from time to time and sometimes violently. In the case of the banking procedure, for example, it has been pointed out that banks render services to borrowers as well as depositors, and the present procedure fails to recognize this. Thus, it is argued, the present treatment gives an unrealistic picture of the nature of banking operations. The conception of life insurance companies as associations of individuals has been similarly criticized.

While the unsatisfactory nature of the present procedure is generally recognized—by the National Income Division as well as others—little progress has been made toward general acceptance of any of the alternatives thus far advanced. In the committee's judgment, therefore, it would be premature to recommend a change in the present procedure. What is needed is a thorough review both within and outside the Government of the treatment of financial intermediaries in the national accounts with a view to developing an alternative, and if possible simpler, procedure that would conform more closely to the realities of the activities of these enterprises. Such a review, together with one for the closely allied area of nonprofit institutions, might go far toward clarifying and strengthening the estimates for these areas.

CHAPTER VIII. SHORT-TERM ESTIMATES

In considering short-term estimates—quarterly or monthly—the emphasis shifts almost exclusively to their usefulness in analyzing current developments. The preponderance of attention given those short-term estimates by economic analysts throughout the country, particularly those in business concerns and labor organizations, is directed toward this objective. Changes in various components of gross product and national income are closely followed as a means of understanding what is happening in the economy and of gaining insight into what the future course of developments may be.

Their usefulness in this context is in strong contrast to the very limited contributions they make toward the solution of longer term problems. Quarterly or monthly fluctuations tend to be of little significance for many kinds of basic analysis; for example, those relating

to changes in the structure of the economy or the comparative status of various economic groups.

The user of the short-term estimates and their inherent limitations necessitate the application of different criteria from those relevant for the annual data. The fact that the same conceptual framework may be applied for both purposes testifies to the fundamental validity of the measures appearing in the national accounts. But it involves compromises in the actual process of measurement, because the standards applicable to the collection of annual data cannot be applied in compiling data suitable for keeping up with changes through short periods within the year. The compromises are forced first, by considerations of cost and, second, by the basic conflict between speed and accuracy.

As an unavoidable consequence of this situation, the short-term analyst must necessarily work with data that are partial or, compared to annual figures, substandard to some degree. All he can ask for is the best possible compromise between timeliness and accuracy. He wants the initial indications of change at the earliest possible moment; but he wants even more to avoid the gross errors that arise from jumping too quickly to a conclusion. His initial view of the situation is always provisional and subject to revision as additional information becomes available.

The committee recognizes that there is no complete solution for this problem. It attempts no more than to specify where reasonable lines of compromise might be drawn for the national accounts data and to indicate where some improvements can be made in the published data and in the underlying source materials that go into their makeup.

The guiding criterion for the short-term estimates is that they should provide: First, a timely survey of important changes in the entire economy; second, sufficient detail to define significant sources of change and to permit analysis of related components of the overall flows; and third, a degree of accuracy and stability that would rule out most of the possibility of misleading indications in the first reports.

1. TIMING

One frequent proposal aimed at greater timeliness calls for putting the gross national product estimates on a monthly basis. The committee recognizes the merit of the contention that quarterly data are comparatively slow and may fail to report a turn for more than 6 months. However, careful consideration leads the committee to conclude that development of monthly estimates of gross national product would not be warranted.

The gross national product is a composite made up of diverse elements that differ widely in behavior and other characteristics. Some of these, like Government services, are quite stable, so that specific monthly data contribute little to knowledge of the situation. Others, like inventories, are highly variable, and as a result of large, erratic fluctuations, the change in any month may be difficult to interpret. Month-to-month changes in the composite would generally be determined by the volatile elements and would at times depict erratic fluctuations of little or no significance. Variation of this character is

inappropriate in a broad measure of activity whose primary objective is to portray the movements of the entire economy.

This in no sense implies that the short-term analyst should wait for the gross national product to obtain his earliest information on current changes. Rather, it suggests that the latest national accounts data should provide a solid point of departure from which the analysis might proceed in terms of supplementary information. Prior data are available for most of the components of gross national product, in such monthly statistics as: industrial production; construction; employment; retail sales; manufacturers' sales, orders, and inventories; and merchandise exports and imports. The personal income series is a basic component of the national accounts already available on a monthly basis. A number of weekly series also serves as timely indicators of current developments. Among these may be mentioned department store sales, wholesale prices, business loans, freight car loadings, and a number of production series, including electric power, steel automobiles, coal, petroleum, and paper products. It is clear from this listing that the short-term analyst is not without recourse in the absence of a monthly gross national product series. However, the committee wishes to make clear that it is desirable to compile as many of these supplementary series as possible on a monthly basis, and on an even more frequent basis where weekly or other interim statistics of that kind would be significant.

The role of the gross national product data must be judged in relation to the supplementary statistics available. A gross national product estimate may be regarded as providing a basic summary of economic activity on a quarterly basis, which is capable of tentative extrapolation by means of other available data. Where this procedure is followed, the gross national product need not be affected by the deficiencies of the monthly data as it smooths irregular fluctuations within the quarter. Any areas of uncertainty in the monthly extrapolation based on supplementary series are then directly tied to the specific items in which they appear. The committee therefore concludes that the gross national product serves best as a quarterly statistic and would be incapable, if provided on a monthly basis, of meeting the objective toward which such proposals are directed.

The one item in the national accounts whose delay tends most to frustrate current analysis is corporate profits. The short-term analyst is put in the position each quarter of distributing an unspecified residual between corporate profits and the statistical discrepancy. Since corporate profits are the most variable item on the income side of the accounts, this imposes a serious burden on the user, who is generally in no position to carry it.

The committee therefore recommends that preliminary estimates of corporate profits be developed and if possible included in the initial quarterly reports. If this is not possible, they should be made available the following month, or as soon as feasible after the initial report for each quarter.

More timely preliminary estimates of corporate profits could be obtained by a combination of methods. In the first place, the tabulations of presently available data by the Federal Trade Commission-Securities Exchange Commission financial reports program could be speeded up with some additional effort and some increase in cost, as,

for example, by obtaining telephone reports. At least one month could be gained by this procedure. Additional reporting samples should be initiated for specific areas of nonmanufacturing where we now have almost no current financial information. And finally, tentative estimating procedures should be developed in some areas, by the Office of Business Economics to supplement survey reports by utilizing related data, such as sales and prices, data which provide in large part the basis for the present estimates of proprietors' income.

2. ACCURACY

Most of the data going into the national accounts have to be drawn from existing records, which were brought into being by operating needs of the organizations preparing them or by legal requirements unrelated to their subsequent uses as economic statistics. Where new records are created, as in field surveys of households that do not maintain records, frequent collection of data is very costly and therefore usually has to be restricted to comparatively small samples. Even where comprehensive records are made in the ordinary course of business operations, the results do not become available for some time after the end of the period to which they apply. Some concerns from which reports are desired complete their records quickly, others in a more leisurely manner. If collection is limited to the former, the possibility of bias cannot be eliminated; and if the latter are included, the setting of an early reporting schedule tends to limit cooperation.

As a consequence, strict sampling procedures cannot be insisted upon, but cutoffs have to be established in accordance with processing and publication requirements. If primary attention is given to the month-to-month or quarterly changes indicated by the respondents reporting in time, acceptable preliminary estimates can usually be obtained by matching reports and analyzing the partial and complete samples obtained from period to period.

From the standpoint of the short-term analyst, it is the change from period to period that is most important. Probability samples that give the best estimates of the total are not designed necessarily to give the best estimates of the change. The sampling error may be small in relation to the total but large in relation to the change. It introduces a disconcerting element of erratic variation into the changes portrayed. It is doubtful, for instance, that the reliability of the estimates of changes in retail sales data has been improved by the more scientific sampling procedures adopted in recent years.

We, therefore, suggest that, except in the case of benchmark data, the agencies compiling statistics that enter into the national accounts direct their efforts primarily to minimizing errors in the changes, and where necessary recast methods of compilation with a view to meeting this criterion as fully as possible. This applies to annual as well as quarterly or monthly estimates, depending upon the specific purposes of the data and the conditions under which they are compiled.

It is unrealistic to expect that the quality of all the current items included in the national accounts can be brought to, or even close to, statistical perfection in the near future. Some components will undoubtedly fall short of meeting the standards of statistical accuracy that would make them suitable for publication. We feel, however,

that in most cases the details behind the current estimates should be made available to interested research workers for examination, discussion of problems involved in their preparation, and such use of them as may be justified. Subjecting them to scrutiny and testing by outside specialists in this way is likely to be a most effective means of achieving improvements over a period of time.

Although the committee advocates a bold approach to the problem of providing preliminary estimates, it does not concur in suggestions that would give a spurious impression of accuracy in those estimates. Two proposals bearing on this point were put before the committee: The first is to eliminate the statistical discrepancy from the accounts; the second is to hold revisions to the minimum. Whatever merit these suggestions may have for the annual data (see ch. XI, sec. 1), we feel that they are inappropriate to the current estimates. Under conditions of current reporting, discrepancies and revisions are unavoidable aspects of the process of overall data compilation. We feel that it is better to make this clear to all concerned than to leave users with a sense of security not justified by the facts.

3. DESIRABLE DETAIL IN THE QUARTERLY ESTIMATES

Users of the national income and product data almost universally agree that more detail in the quarterly estimates would be desirable for analytical purposes. The National Income Division has been publishing detail on consumer expenditures in the statistical pages of the Survey of Current Business, to supplement the three-way break by durability (nondurable, semidurable, durable) shown in the quarterly gross national product estimates. A similar degree of disaggregation would be desirable for the other segments of gross national product, and for convenience all should be brought together in a single table.

A suggested listing of items to be shown on the expenditure side of the account in accordance with this proposal is provided in table B-1 of appendix B, which does not constitute a recommendation by the committee as to every detail. The primary breakdown not now regularly available and most widely desired is that for producers' durable equipment. The analysts consulted almost universally propose some breakdown of this item—some suggesting detail by type of equipment, others by user. An illustrative listing is included in table B-1, which is presented merely as a useful compromise based on a primary break by type. Since the nature of the major kinds of equipment largely determines their use, a large part of what is desired in the break by user would be indicated in these data. The "all other" category is somewhat of a conglomerate, but most industrial equipment as such is excluded, appearing in the other categories. We recognize, of course, that new source material will have to be developed in order to provide any such breakdown of the producers' durable goods total.

Nonresidential construction as presently shown is also too inclusive. If it were to be divided in such a way as to separate out the portion intended for industrial use, the additional information would be of considerable analytical value.

Government capital expenditures should also be shown separately, on a basis as nearly comparable with those in the private sectors as

possible. The breakdown shown in table B-1, which is intended to be illustrative only, makes such a separation and also subdivides the remaining expenditures between compensation of employees and other purchases from business.

In the case of the foreign sector, a basic change is recommended which is in accord with that suggested for annual estimates in chapter VII, section 4. The net balance on current account is substituted for net foreign investment, and the major components are shown. The most important aspects of this change are that it reveals the gross flows of goods and services into and out of the economy, and directs attention to what is, for nonmilitary items at least, the more relevant point of analysis. This change has been under discussion for some time and has already been accepted in principle by the National Income Division.

It is suggested that data on the income side of the accounts be presented separately, as illustrated in table B-2. This rearrangement makes for more logical treatment of the data in current analysis than the present arrangement, in which gross national product appears between "national income" and "disposition of personal income." The amount of detail proposed is not greatly increased.

The detailed breakdown of personal income is shown in preference to that for national income. The latter is of less significance for current analysis, except for the data on corporate sources and uses of funds, which are covered in the proposed table B-3.

The breakdowns in table B-3, both as to sectors and as to items shown for each, are again primarily illustrative. Some of the quarterly data in the section on sources and uses of corporate funds are not now published. This is not a complete statement of sources and uses of funds, since certain working capital items are left out of account.

International transfer payments are shown in table B-3 in both the personal and the Government sectors. These items would be removed from personal and Government purchases with the shift from net foreign investment to the net foreign balance on current account and therefore should be separately shown at some other point in the quarterly tables.

4. NEED FOR NEW CURRENT DATA

Most consistent among the demands for new current data are those relating to deflated gross national product. Since the interim movements of the constant-dollar measures diverge at times from the current-dollar estimates, the purposes for which they are constructed can be served only by making them currently available. Most of the price indexes used in deflating the current-dollar estimates are available on an interim basis, so that deflation of the quarterly estimates would appear to be feasible. The fact that estimates of this kind are sometimes computed and published by commercial periodicals and congressional committees reinforces this conclusion. These demands envisage not only the deflated gross product total but also substantial detail. Most analysts would like at least as much detail as in the quarterly summaries now published. The committee is aware that some of the price series are seriously lacking in quality and that in many cases they also miss the time schedule for publication of the current estimates. This illustrates again the need for a concerted

attack on the problem, involving the coordinated efforts of the various agencies involved, that has been discussed in some detail in chapter VI with respect primarily to annual estimates.

Other requests for new current data were not, in the view of the committee, acceptable. These were either impractical or of a character that made their compilation on a basis more frequent than annually inappropriate.

Even with requests limited to this extent, there may be certain detailed items of information in addition to corporate profits which the National Income Division cannot provide as promptly as the basic quarterly series. For all such items, it is suggested that a dual publication schedule might be devised to achieve the most timely presentation of results consistent with minimum standards of accuracy. This could be done by reporting the results initially available as soon as possible after the end of the quarter and supplying additional detail after a short time lag of, say, 1 month instead of a full quarter. The additional work and publication costs involved in this proposal would be justified by the widespread and growing use of these data in current analysis throughout the community.

The same line of reasoning leads to the recommendation that as additional data become available which permit revisions these revisions be released as soon as they are made instead of being held, as is the practice now, until the annual estimates are published in July of the following year. At the least, these revisions should be released at the time a new quarterly estimate is given out, in accordance with the usual practice in reporting other current statistics.

The recommended quarterly reports from the National Income Division should be supplemented by the flow-of-funds data now being compiled annually by the Federal Reserve Board. Insofar as possible, the Federal Reserve should plan to make its publication schedule as timely as that of the National Income Division. This suggestion is discussed in chapter XII.

CHAPTER IX. PROBLEMS OF REGIONAL ESTIMATES

The committee has confined this chapter to a brief summary of recommendations without a detailed discussion of the estimates now existing or of some of the basic problems that arise in building up national accounts for areas smaller than the entire United States because a fairly exhaustive treatment of these subjects has recently become available in *Regional Income (Studies in Income and Wealth, vol. XXI, a collection of the papers presented at the meeting of the Conference on Research in Income and Wealth held in June 1955)*; and because the National Income Division has just published a detailed description of its revised estimates in *Personal Income by States Since 1929*.

1. NATIONAL INCOME DIVISION ESTIMATES

Official estimates of State incomes were first published in 1939 and now are available on an annual basis back to 1929.⁵² In recent years,

⁵² The first systematic unofficial estimates of income by States were prepared by the National Bureau of Economic Research in the early 1920's. (Cf. O. W. Knauth, *Distribution of Income by States in 1919*, and M. Leven, *Income in the Various States: Its Sources and Distribution, 1919, 1920, and 1921*.)