

18. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPAs) are an integrated set of measures of aggregate U.S. economic activity that are prepared by the Bureau of Economic Analysis of the Department of Commerce. One of the many purposes of the NIPAs is to measure the Nation's total production of goods and services, known as gross domestic product (GDP), and the incomes generated in its production. GDP is measured as the sum of final expenditures—consumer spending, private investment, net exports, and government consumption and investment. Because the NIPAs are widely used in economic analysis, it is important to show the NIPA presentation of Federal transactions.

Federal transactions are included in the NIPAs as part¹ of the government sector. The concepts for the Federal sector have been designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual structure of the entire set of integrated accounts. The NIPA Federal sector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. Rather, it is an accounting translation of the budget to meet specialized and important needs, chiefly the measurement of the impact of Federal receipts, current expenditures, and the current deficit on the national economy. NIPA concepts differ in many ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

GDP is a measure of the Nation's final output, which excludes intermediate product to avoid double counting. Government consumption expenditures and gross investment are included in GDP as part of final output, together with personal consumption expenditures, gross private domestic investment, and net exports of goods and services. Other Federal expenditures—transfer payments, grants to State and local governments, subsidies, and net interest payments—are not final output. An entire set of receipt and current expenditure transactions of the Federal Government is prepared as one sector of the NIPAs; however, when the accounts for all the sectors are consolidated into an account for the Nation as a whole, transfer payments, grants, subsidies, and interest are canceled out by the receipt of those payments as income in other sectors. This leaves only government consumption expenditures and gross investment—State and local as well as Federal—to be included in final output.

¹The other part of the government sector is a single consolidated set of transactions for all State and local units of government combined.

Differences Between the NIPAs and the Budget

Federal transactions in the NIPAs are measured according to NIPA accounting concepts in order to be compatible with the purposes of the NIPAs and other transactions recorded in the NIPAs. As a result, on a fiscal year basis, they differ from the budget in netting, timing, and coverage. These differences cause total receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget. Differences in timing and coverage also cause the NIPA current deficit to differ from the budget deficit. Netting differences have equal effects on receipts and expenditures and thus have no effect on the current deficit. Besides these differences, the NIPAs combine transactions into different categories from those used in the budget.

Netting differences arise when the budget records certain transactions as offsets to outlays while they are recorded as receipts in the NIPAs. The budget treats all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes—as governmental receipts. On the other hand, the budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPAs generally follow this concept as well, and all income to government enterprises such as the Postal Service or the power administrations is offset against expenditures. However, the NIPAs have a narrower definition of “business-type transactions”. Rents, royalties, and regulatory or inspection fees are recorded in the NIPAs under receipts as business nontaxes. The NIPAs include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions.

In the budget, any intragovernmental income from one account to another is offset against outlays rather than being recorded as a receipt. Government contributions for employee pensions are an example: the budget offsets these payments against outlays. In contrast, the NIPAs treat the Federal Government like any other employer and show contributions for employee social insurance as expenditures by the employing agencies and governmental (rather than offsetting) receipts to the appropriate social insurance funds. The NIPAs also include certain imputations that the budget does not. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPAs impute social insurance contributions by employing agencies to finance these benefits—again, treating the Federal Government like any other employer.

Timing differences for receipts occur because the NIPAs generally record personal taxes and social insurance contributions when they are paid and business

taxes when they accrue, while the budget generally records receipts when they are received. A type of timing difference arises on the expenditure side because of the NIPA treatment of government investment. The budget includes outlays for Federal investments as they are paid for, while the Federal current account of the NIPAs instead includes a depreciation charge on past investments ("consumption of general government fixed capital") among "current expenditures." The inclusion of depreciation on fixed capital (structures and equipment) in current expenditures is intended as a proxy for the services of capital; i.e., for its contribution to government output of public services.

The budget and the NIPAs also have coverage differences. The NIPAs exclude transactions with U.S. territories. The NIPAs also exclude the proceeds from the sales of nonproduced assets such as land. Bonuses paid on Outer Continental Shelf oil leases and proceeds from broadcast spectrum auctions are shown as offsetting receipts in the budget and are deducted from budget outlays. In the NIPAs these transactions are excluded as an exchange of assets with no production involved.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPAs on the grounds that such transactions simply involve an exchange of assets. In contrast, the budget records the estimated subsidy cost of the direct loan or loan guarantee as an outlay when

the loan is disbursed. The cash flows with the public are recorded in nonbudgetary accounts as a means of financing the budget deficit rather than as budgetary transactions themselves. This treatment recognizes that part of a Federal direct loan is an exchange of assets with equal value but part is a subsidy to the borrower. It also recognizes the subsidy normally granted by loan guarantees. In the NIPAs, neither the subsidies nor the loan transactions are included; however, the NIPAs include all interest transactions with the public, including net interest paid to the financing accounts.

Deposit insurance outlays for resolving failed banks and thrift institutions are similarly excluded from the NIPAs on the grounds that there are no offsetting current income flows from these transactions. In 1991, this exclusion was the largest difference between the NIPAs and the budget and tended to make the budget deficit larger than the NIPA current deficit. In subsequent years, as assets acquired from failed financial institutions have been sold, these collections have tended to make the budget deficit smaller than the NIPA current deficit.

Federal Sector Receipts

Table 18-1 shows Federal receipts in the four major categories used in the NIPAs, which are similar to the budget categories but with significant differences.

Table 18-1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1988-1999

(In billions of dollars)

Description	Actual										Estimate	
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
RECEIPTS												
Personal tax and nontax receipts	407.9	458.3	477.3	477.4	485.8	513.3	555.2	598.6	668.6	757.3	785.1	807.8
Corporate profits tax accruals	107.7	119.1	116.5	111.4	115.4	130.6	152.5	180.0	192.4	206.0	220.8	223.9
Indirect business tax and nontax accruals	60.4	61.7	63.6	75.9	80.9	85.2	97.1	95.2	91.1	92.1	92.1	105.7
Contributions for social insurance	405.6	430.8	455.1	476.6	499.0	522.7	551.7	578.4	599.8	636.5	664.5	694.8
Total receipts	981.5	1,069.9	1,112.5	1,141.5	1,181.0	1,251.8	1,356.5	1,452.2	1,551.9	1,691.9	1,762.4	1,832.1
CURRENT EXPENDITURES												
Consumption expenditures	385.4	401.4	419.9	444.4	447.6	449.9	445.6	444.9	442.1	457.5	459.7	468.6
Defense	296.3	301.8	308.8	324.4	318.0	313.2	305.7	300.5	298.1	307.5	304.7	305.7
Nondefense	89.1	99.7	111.1	118.1	129.6	136.7	139.9	144.5	144.0	150.0	154.9	162.9
Transfer payments	431.6	461.4	505.6	509.5	607.4	651.6	678.3	714.2	750.9	786.3	815.1	851.2
To persons	420.5	449.7	490.7	535.7	595.8	634.3	661.9	699.9	737.3	774.1	802.8	839.0
To the rest of the world	11.1	11.7	14.9	-26.1	11.5	17.3	16.4	14.3	13.6	12.2	12.3	12.2
Grants-in-aid to State and local governments	108.4	115.8	128.4	147.1	168.4	180.3	197.2	211.9	215.3	220.0	235.6	259.0
Net interest paid	146.5	161.9	178.5	187.1	197.9	192.2	195.6	220.3	226.2	234.2	231.0	229.3
Subsidies less current surplus of Government enterprises	34.4	32.9	29.5	31.6	34.1	38.7	38.4	37.5	37.7	38.2	37.2	35.7
Wage disbursements less accruals	0.1			0.1								
Total current expenditures	1,106.4	1,173.4	1,261.9	1,319.9	1,455.3	1,512.6	1,555.1	1,628.9	1,672.2	1,736.2	1,778.5	1,843.8
Current deficit (-)	-124.9	-103.5	-149.3	-178.4	-274.3	-260.8	-198.6	-176.7	-120.2	-44.3	-16.1	-11.7
ADDENDUM												
Gross investment	73.8	65.9	78.5	79.5	74.4	70.8	67.6	67.3	68.0	61.2	58.3	58.6
Defense	60.2	51.7	61.7	61.9	54.3	48.1	48.5	46.9	47.1	39.9	36.3	35.4
Nondefense	13.5	14.2	16.8	17.6	20.1	22.7	19.0	20.4	21.0	21.3	22.0	23.1

* \$50 million or less.

Personal tax and nontax receipts is the largest category. It is composed primarily of personal income taxes, but also includes estate and gift taxes, fees, fines, and other receipts from persons.

Corporate profits tax accruals differs in classification from the corresponding budget category primarily because the NIPAs include the deposit of earnings of the Federal Reserve System as corporate profits taxes, while the budget treats these collections as miscellaneous receipts. The timing difference between the NIPAs and the budget is especially large for corporate receipts.

Indirect business tax and nontax accruals is composed of excise taxes, customs duties, royalties, fines, and other receipts from business.

Contributions for social insurance differs from the corresponding budget category primarily because: (1) the NIPAs include Federal employer contributions for employee retirement in this category as a Government receipt, while the budget offsets the contributions against outlays as undistributed offsetting receipts; (2) the NIPAs include premiums for Part B of Medicare as Government receipts, while the budget nets them against outlays; and (3) the NIPAs include imputations for contributions for Federal employees' unemployment insurance and workers' compensation.

Federal Sector Current Expenditures

Table 18-1 shows current expenditures in the six major NIPA categories, which are very different from the budget categories.

Government consumption expenditures are the goods and services purchased by the Federal Government in the current account, including compensation of employees and depreciation. This category is a new one intro-

duced two years ago as part of the regular comprehensive revision of the NIPAs. The previous category, government purchases of goods and services, included gross investment spending but did not include imputed depreciation on federally owned fixed capital ("consumption of general government fixed capital"); the new category does. Gross investment (shown as addendum items in Table 18-1) is now excluded from current expenditures in computing the government current surplus or current deficit on a NIPA basis. The same changes were made to the State and local government sector of the NIPAs, which now reflects depreciation of State and local fixed capital (including that financed by Federal grants in aid).

Although gross investment is not included in government current expenditure, both government gross investment and current consumption expenditures (including depreciation) are now included in total GDP (both in current estimates and in historical NIPA data), which makes the treatment of the government sector in the NIPAs more like that of the private sector. This new treatment had the effect of increasing the level of measured GDP by the amount of depreciation on general government capital (Federal, State and local; the consumption of fixed capital owned by government enterprises did not affect the level of GDP). This raised calendar year 1995 GDP, for example, by \$122 billion, or 1.7 percent.

Transfer payments is the largest expenditure category. Transfer payments to persons are mainly for income security and health programs, such as Social Security and Medicare. Transfer payments to the rest of the world include grants to foreign governments and

Table 18-2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA

	Actual										Estimate	
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
RECEIPTS												
Budget receipts	909.3	991.2	1,032.0	1,055.0	1,091.3	1,154.4	1,258.6	1,351.8	1,453.1	1,579.3	1,657.9	1,742.7
Coverage differences	-1.2	-1.4	-1.6	-1.7	-1.8	-1.9	-2.1	-2.2	-2.3	-2.6	-2.7	-2.8
Contributions to government employee retirement funds (grossing)	59.6	60.9	62.2	66.0	67.6	67.3	66.9	66.5	65.0	71.4	72.2	73.8
Other netting and grossing	13.8	13.9	16.6	20.9	25.5	29.3	31.2	29.5	28.5	33.8	29.7	30.4
Timing differences	0.5	3.6	3.5	2.2	-1.0	3.6	4.6	8.5	8.7	16.2	9.8	-2.6
Other	-0.5	1.7	-0.2	-0.9	-0.6	-0.9	-2.7	-1.9	-1.1	-6.2	-4.5	-9.4
NIPA receipts	981.5	1,069.9	1,112.5	1,141.5	1,181.0	1,251.8	1,356.5	1,452.2	1,551.9	1,691.9	1,762.4	1,832.1
EXPENDITURES												
Budget outlays	1,064.5	1,143.7	1,253.2	1,324.4	1,381.7	1,409.4	1,461.7	1,515.7	1,560.3	1,601.2	1,667.8	1,733.2
Net lending	-10.4	-10.7	1.4	-2.9	-5.0	-5.4	0.4	-10.1	-10.5	-5.9	-21.4	-8.9
Deposit insurance and other financial transactions	-1.0	-9.9	-56.1	-65.0	-4.7	24.1	7.5	21.0	15.2	11.0	6.6	-2.1
Net purchases of nonproduced assets ...	0.1	0.7	1.0	-0.2	-0.2	-0.2	-0.2	7.4	0.1	10.2	4.3	2.6
Other coverage differences	-5.8	-6.4	-6.9	-7.4	-5.0	-7.6	-5.4	-3.9	1.0	2.5	5.1	-1.7
Contributions to government employee retirement funds	59.6	60.9	62.2	66.0	67.6	67.3	66.9	66.5	65.0	71.4	72.2	73.8
Other netting and grossing differences	13.8	13.9	16.6	20.9	25.5	29.3	31.2	29.5	28.5	33.6	29.7	30.4
Difference between investment and depreciation	-17.5	-15.9	-16.3	-14.3	-10.3	-5.8	1.6	3.2	3.3	10.2	13.5	13.8
Other timing differences	3.1	-2.9	6.8	-1.6	5.7	1.5	-8.6	-0.4	9.3	1.8	0.6	0.7
NIPA current expenditures	1,106.4	1,173.4	1,261.9	1,319.9	1,455.3	1,512.6	1,555.1	1,628.9	1,672.2	1,736.2	1,776.5	1,843.8

payments under Social Security and other similar programs to individuals living abroad.

Grants-in-aid to State and local governments are designed to help finance a range of programs. Grants are for income security, Medicaid, capital expenditures for infrastructure, and other purposes.

Net interest paid is the interest paid by the Government on its debt, less interest received on its loans.

Subsidies less current surplus of Government enterprises consists of two elements: (1) subsidy payments for resident businesses; and (2) the current surplus (or current deficit) of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving funds. As part of the changes made in the 1996 comprehensive revision of the NIPAs, imputed depreciation (consumption of enterprise fixed capital) now reduces the current surplus of government enterprises in comparison to the previous treatment.

NIPA subsidies do not include the imputed credit subsidies estimated as part of credit reform in the budget. Rather, loans and guarantees are categorized as financial transactions and are excluded from the NIPAs.

Wage disbursements less accruals is an adjustment that is necessary to the extent that wages are earned in a different period than they are paid.

Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA receipts have exceeded budget receipts in each year, due principally to the imputed employer contributions for employee retirement. NIPA current expenditures have usually been higher than budget outlays for the same reason. There are, however, two components of budget outlays that are sometimes sufficiently large in combination to match the netting adjustments. These are financial transactions and payments to U.S. territories. Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 made those year's budget outlays nearly equal to NIPA current expenditures. With the change in budgetary treatment of direct loans in 1992 under credit reform, one type of financial transaction—direct loans to the public—has been recorded in the budget in a way that is closer to the NIPA treatment. Disbursement and repayment of loans are now recorded outside the budget as in the Federal sector of the NIPAs, although, unlike the NIPAs, imputed credit subsidies are recorded as budget outlays.

Table 18-3. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPAs, QUARTERLY, 1997-1999

(In billions of dollars; seasonally adjusted at annual rates)

Description	Actual				Estimate							
	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.
	1996	1997	1997	1997	1997	1998	1998	1998	1998	1999	1999	1999
RECEIPTS												
Personal tax and nontax receipts	717.5	746.9	767.9	781.9	NA	778.9	785.8	793.1	800.3	799.7	807.3	814.9
Corporate profits tax accruals	192.0	204.9	207.7	219.3	NA	220.6	221.4	221.0	222.1	224.0	224.3	225.1
Indirect business tax and nontax accruals	110.2	88.2	92.2	92.4	NA	92.8	93.1	92.9	100.6	100.1	100.2	101.3
Contributions for social insurance	622.0	635.3	641.5	648.2	NA	664.1	670.2	676.3	683.1	692.9	698.9	704.9
Total receipts	1,641.6	1,675.3	1,709.3	1,741.9	NA	1,756.3	1,770.5	1,783.2	1,806.3	1,816.7	1,830.6	1,846.2
CURRENT EXPENDITURES												
Consumption expenditures	453.6	458.0	464.2	464.7	NA	469.3	461.4	457.8	456.5	463.4	464.7	469.0
Defense	307.6	306.4	311.3	311.6	NA	313.5	304.1	298.7	295.9	299.4	299.3	302.1
Nondefense	146.0	151.7	152.9	153.1	NA	155.8	157.3	159.1	160.6	164.1	165.4	166.9
Transfer payments	777.3	785.9	791.4	794.5	NA	814.6	819.8	825.6	838.0	851.0	856.6	862.5
Domestic ("to persons")	754.4	775.5	780.5	784.5	NA	803.9	809.3	815.1	820.4	840.8	846.4	852.4
Foreign	22.9	10.5	10.8	10.0	NA	10.6	10.4	10.5	17.6	10.2	10.2	10.1
Grants-in-aid to State and local governments	217.5	219.6	222.5	224.2	NA	228.3	236.8	241.4	246.5	255.2	262.2	268.3
Net interest paid	231.8	228.9	229.8	231.2	NA	230.6	229.7	229.0	228.9	228.6	228.4	228.3
Subsidies less current surplus of Government enterprises	38.5	38.4	38.1	37.9	NA	39.9	40.3	38.4	38.8	38.3	38.1	37.8
Wage disbursements less accruals					NA							
Total current expenditures	1,718.8	1,730.8	1,746.0	1,752.6	NA	1,782.6	1,788.0	1,792.1	1,808.7	1,836.6	1,850.1	1,865.9
Current deficit (-)	-77.1	-55.5	-36.8	-10.8	NA	-26.3	-17.5	-8.9	-2.4	-19.9	-19.5	-19.7
ADDENDUM												
Gross investment	63.9	58.1	61.9	61.0	NA	57.4	56.4	55.8	57.1	58.7	59.3	58.8
Defense	42.9	37.0	39.3	40.5	NA	35.6	34.4	33.5	34.5	35.8	35.9	35.5
Nondefense	21.0	21.1	22.6	20.5	NA	21.9	22.0	22.3	22.6	22.9	23.3	23.4

NA = Not available.

* \$50 million or less.

During the period 1975–1992, the budget deficit exceeded the Federal current deficit as measured in the NIPAs every year. The largest difference, \$92.7 billion, occurred in 1991, when the budget deficit was \$269.4 billion, while the NIPA current deficit was \$176.6 billion. In 1993–1997, the NIPA current account deficit was slightly above the budget deficit, and it is projected to remain higher in 1998 and to show a small NIPA deficit for 1999, where the unified budget shows a small surplus.

Table 18–1 displays Federal transactions using NIPA concepts with actual data for the years 1987–1997 and estimates for 1998 and 1999 consistent with the Administration’s budget proposals. Table 18–2 displays the reasons for differences between the data using budget

concepts and NIPA concepts. Table 18–3 displays quarterly seasonally adjusted data using NIPA concepts beginning in October 1996. These differ slightly from the fiscal year totals computed from not seasonally adjusted data, because seasonal adjustment is on a calendar year basis. Annual NIPA data for 1960–1999 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 1999*.

Additional detailed estimates of receipts and current expenditures, including estimates for the October–December 1997 quarter, will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business*.

