16. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPA) are an integrated set of measures of aggregate U.S. economic activity that are prepared by the Department of Commerce. One of the main purposes of the NIPA 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. Because the NIPA are widely used in economic analysis, it is important to show the NIPA presentation of Federal transactions and contrast it with 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 government expenditures—transfer payments, grants to State and local governments, subsidies, and net interest payments—are not final output and as such are not included in GDP; however, these transactions are recorded in the NIPA government receipts and expenditure account. This leaves only government consumption expenditures and gross investment—State and local as well as Federal—to be included in final output.

Federal transactions are included in the NIPA as part(1) of the government sector. (footnote (1) The other part of the government sector is a single consolidated set of transactions for all U.S. State and local units of government combined.) The Federal sector is 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. 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.

Differences Between the NIPA and the Budget

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

October 1999 NIPA Revisions.—Comprehensive revisions to the NIPA introduced in October 1999 significantly changed the way Federal transactions are measured in the NIPA, and, since the budget did not change correspondingly, changed the ways in which the NIPA differ from the budget. The three most important changes were 1) the inclusion of computer software in investment (government and private) and the inclusion in consumption expenditures of a proxy for the services of software capital, measured as depreciation; 2) removal of transactions deemed "capital transfers" from the NIPA government sectors (which removes estate and gift taxes from both Federal and the State and local current receipts, and removes Federal grants for construction of fixed capital from Federal NIPA current expenditures); and 3) a revised treatment of government employee pension plans that treats their transactions analogously to those of private pension plans. Under the revised pension treatment, employer and employee contributions to government employee pension plans are now personal income (as if paid to a private pension plan in the household sector) rather than government receipts (contributions for social insurance); and pension benefit payments to former government employees are now simply transfers within the household sector rather than government expenditures (transfers to persons). The effects of these "new" changes are reflected in this section.

Netting differences arise when the budget records certain transactions as offsets to outlays while they are recorded as receipts in the NIPA (or vice versa). 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 NIPA 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 NIPA have a narrower definition of "business-type transactions". Rents, royalties, and regulatory or inspection fees (offsetting receipts in the budget) are recorded in the NIPA as Government receipts (business nontaxes). The NIPA include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts).

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 Federal employee social insurance (such as social security) is an example: the budget offsets these payments against outlays. In contrast, the NIPA treat the Federal Government like any other employer and show contributions for Federal employee social insurance as expenditures by the employing agencies and as governmental (rather than offsetting) receipts. The NIPA also impute certain transactions that are not explicit in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPA 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 NIPA generally record personal taxes and social insurance contributions when they are paid and business taxes when they accrue, while the budget generally records all receipts when they are received. When the NIPA attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability were generated, significant timing differences with the budget arise. When the first of a month falls on a weekend, monthly benefit checks normally mailed on the first of the month may be mailed out a day or two earlier; the budget then reflects two payments in one month and none the next. On occasion, the budget totals reflect 13 monthly payments in one year and only 11 the next. NIPA expenditure figures always reflect 12 benefit payments per year—again giving rise to a timing difference compared to the budget.

The budget and the NIPA also have *coverage differences*. The NIPA exclude transactions with U.S. territories. The NIPA 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 NIPA these transactions are excluded as an exchange of nonproduced assets with no production involved.

A type of coverage 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 sector of the NIPA instead excludes current investments but includes a depreciation charge on past investments ("consumption of general government fixed capital") among "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures is a proxy for the services of capital; i.e., for its contribution to government output of public services. The 1999 comprehensive revisions to the NIPA reclassified software as investment, adding to the measured size of both investments and capital consumption (government and private).

The new treatment of government pension plan income and outgo in the 1999 revisions also gives rise to a form of coverage difference. Where the budget treats employee payments to these pension plans as government receipts, and employer contributions as offsets to outlays, the NIPA now treat both as personal income, as if the pension plan were in the private (household) sector; the budget records a government check to a retired government employee as a current outlay, but under the new NIPA concepts, no government expenditure then occurs; the payment is treated as a transfer of income within the household sector.

As part of the 1999 comprehensive revision of the NIPA, Federal investment grants to State and local governments (such as for interstate highway construction), investment subsidies to business, and forgiveness of debt owed by foreign governments are now excluded from the NIPA as being capital transfers. Likewise, estate and gift taxes, included in budget receipts, are now excluded from the NIPA as capital transfers.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPA on the grounds that such transactions simply involve an exchange of financial assets. In contrast, under the Federal Credit Reform Act of 1990, for direct loan obligations and loan guarantee commitments made after 1991, 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 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 NIPA, neither the subsidies nor the loan transactions are included; however, the NIPA 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 NIPA on the grounds that there are no offsetting current income flows from these transactions. In 1991, this exclusion was the largest difference between the NIPA 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 were sold, these collections tended to make the budget deficit smaller than the NIPA current deficit.

Federal Sector Current Receipts

Table 16–1 shows Federal current receipts in the four major categories used in the NIPA, which are similar to the budget categories but with significant differences.

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

Corporate profits tax accruals differs in classification from the corresponding budget category primarily because the NIPA include the deposit of earnings of the Federal Reserve System as corporate profits taxes, while the budget treats these collections as miscella-

Table 16–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1999–2001

(In billions of dollars)

Description	Actual 1999	Estimate	
		2000	2001
CURRENT RECEIPTS			
Personal tax and nontax receipts	887.8	941.6	964.6
Corporate profits tax accruals	210.9	222.7	224.2
Indirect business tax and nontax accruals	99.4	107.5	116.4
Contributions for social insurance	644.0	681.1	713.6
Total current receipts	1,842.2	1,952.9	2,018.7
CURRENT EXPENDITURES			
Consumption expenditures	460.7	483.6	486.3
Defense	304.7	315.8	317.2
Nondefense	156.0	167.8	169.1
Transfer payments	741.3	771.7	819.9
To persons	732.6	762.3	808.3
To the rest of the world	8.7	9.4	11.7
Grants-in-aid to State and local governments	223.8	242.1	259.6
Net interest paid	264.8	258.5	247.1
Subsidies less current surplus of Government enterprises	36.4	38.8	28.5
Wage disbursements less accruals	....	....	....
Total current expenditures	1,727.0	1,794.8	1,841.4
Current surplus or deficit (–)	115.2	158.1	177.3
ADDENDUM			
Gross investment	92.2	102.8	112.2
Defense	51.9	56.9	60.9
Nondefense	40.3	45.9	51.3

* $50 million or less.

neous receipts. The timing difference between the NIPA 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 NIPA include Federal employer contributions for social insurance as a Government receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPA include premiums for Part B of Medicare as Government receipts, while the budget again nets them against outlays; (3) the NIPA treat government employee contributions to their pension plans as personal income, while the budget includes them in Government receipts; and (4) the NIPA impute contributions for Federal employees' unemployment insurance and workers' compensation.

Federal Sector Current Expenditures

Table 16–1 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. Gross investment (shown as addendum items in Table 16–1) is thus excluded from current expenditures in computing the government current surplus or current deficit on a NIPA basis, whereas depreciation is included. The NIPA treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfers) or from State and local own source receipts.

Although gross investment is not included in government current expenditures, both government gross investment and current consumption expenditures (including depreciation) are included in total GDP, which makes the treatment of the government sectors in the NIPA similar to that of the private sector.

Transfer payments are the largest expenditure category. Transfer payments to persons are mainly for income security and health programs, such as Social Security and Medicare. (Since the 1999 NIPA revisions, payment of pension benefits to former government employees is no longer included in transfer payments to persons.) Transfer payments to the rest of the world include grants to foreign governments and payments under Social Security and other similar programs to individuals living abroad.

Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, education, and others (but capital transfers for construction of highways, airports, waste-water treatment plants and mass transit are now excluded).

Net interest paid is the interest paid by the Government on its debt (excluding debt held by trust funds, other than Federal employee pension plans; and other Government accounts), less interest received on its loans.

Subsidies less current surplus of Government enterprises consist of two elements: (1) subsidy payments for resident businesses (excluding subsidies for investment); and (2) the current surplus (or 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. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of government enterprises.

NIPA subsidies do not include the imputed credit subsidies estimated as budget outlays under credit reform. Rather, loans and guarantees are categorized as financial transactions and are excluded from the NIPA except for associated interest and fees.

Wage disbursements less accruals is an adjustment that is necessary to the extent that the wages paid in a period differ from the amount earned in the period.

Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA current receipts have been less than budget receipts in most years, due principally to the fact that estate and gift taxes, which they exclude (as capital transfers) have exceeded Medicare premiums, which they include but budget receipts do not. NIPA current expenditures have usually been higher than budget outlays (from which the Medicare premiums and employer retirement contributions are netted out as offsetting receipts), despite the omission from NIPA expenditures of grants for capital construction and pension benefits payments to former government employees. However, two components of budget outlays 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 caused those year's budget outlays to significantly exceed 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 NIPA, although, unlike the NIPA, credit subsidies are recorded as budget outlays.

During the period 1968–1992, the budget deficit exceeded the Federal current deficit as measured in the NIPA nearly every year. The largest difference, $71 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then $269.4 billion, while the NIPA current deficit (from seasonally adjusted data) was $198.1 billion. In 1993–1997, the NIPA current account deficit was slightly above the budget deficit, while for 1998–2001, the NIPA current account surplus is projected to be lower than the budget surplus.

Table 16–1 displays Federal transactions using NIPA concepts with actual data for 1999 and estimates for 2000 and 2001 consistent with the Administration's budget proposals. Table 16–2 summarizes the reasons for differences between the data using budget concepts and NIPA concepts. Table 16–3 displays quarterly data using NIPA concepts beginning in October 1998.

Table 16–2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA

	Actual 1999	Estimate	
		2000	2001
CURRENT RECEIPTS			
Budget receipts	1,827.5	1,956.3	2,019.0
Contributions to government employee retirement plans	–4.5	–4.3	–3.9
Capital transfers received	–27.7	–30.3	–32.2
Other coverage differences	–7.0	–8.1	–8.5
Netting and grossing	37.0	39.5	41.4
Timing differences	16.9	–0.1	3.0
NIPA current receipts	1,842.2	1,952.9	2,018.7
EXPENDITURES			
Budget outlays	1,703.0	1,789.6	1,835.0
Government employee retirement plan transactions	32.0	32.1	31.3
Deposit insurance and other financial transactions	–1.8	–4.2	–11.1
Capital transfers paid	–31.3	–35.0	–37.3
Net purchases of nonproduced assets	1.0	1.6	3.3
Net investment	–2.4	–9.4	–15.6
Other coverage differences	–13.0	–16.5	–14.5
Netting and grossing differences	37.0	39.5	41.4
Timing differences	2.4	–2.9	8.9
NIPA current expenditures	1,727.0	1,794.8	1,841.4

Additional detailed estimates of current receipts and current expenditures will be published in a forthcoming issue of the Department of Commerce publication, the *Survey of Current Business.*

Table 16–3. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPA, QUARTERLY, 1999

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

Description	Actual				
	Oct.-Dec. 1998	Jan.-Mar. 1999	Apr.-June 1999	July-Sept. 1999	Oct.-Dec. 1999
RECEIPTS					
Personal tax and nontax receipts	868.1	877.9	892.1	908.0	922.3
Corporate profits tax accruals	202.6	212.6	218.1	222.4	NA
Indirect business tax and nontax accruals	99.6	99.5	100.0	101.5	102.7
Contributions for social insurance	623.1	636.5	642.9	651.2	657.5
Total receipts	1,793.3	1,826.5	1,853.1	1,883.1	NA
CURRENT EXPENDITURES					
Consumption expenditures	460.0	467.0	465.2	458.7	492.7
Defense	303.4	304.6	300.8	312.1	326.1
Nondefense	156.5	162.4	164.4	162.9	166.7
Transfer payments	742.1	743.4	749.7	817.0	770.4
Domestic (“to persons”)	723.5	736.6	740.5	746.4	752.8
Foreign	18.7	6.8	9.2	8.5	17.6
Grants-in-aid to State and local governments	214.2	219.9	215.7	230.6	230.7
Net interest paid	274.3	266.0	264.8	259.9	261.2
Subsidies less current surplus of Government enterprises	42.9	32.6	39.5	29.0	51.3
Wage disbursements less accruals	....	....	....	....	....
Total current expenditures	1,733.5	1,728.9	1,735.0	1,749.3	1,806.3
Current deficit (–)	59.7	97.6	118.1	113.8	NA
ADDENDUM					
Gross investment	60.0	60.7	56.8	73.2	101.8
Defense	49.5	51.2	53.5	53.4	57.3
Nondefense	37.2	39.2	41.5	19.9	44.5

NA = Not available.

* $50 million or less.