

13. 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 Department of Commerce. Because the NIPAs include Federal transactions and are widely used in economic analysis, it is important to show the NIPAs' distinctive presentation of Federal transactions and contrast it with that of the budget.

One of the main 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 a measure of the Nation's final output, which excludes intermediate product to avoid double counting. Both government consumption expenditures and government gross investment—State and local as well as Federal—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 (exports minus imports).

Other Government expenditures—social benefits, grants to State and local governments, subsidies, and interest payments—are not purchases of final output and as such are not included in GDP; however, these transactions are recorded in the NIPA Government current receipts and current expenditure account, together with Government consumption expenditures (which includes depreciation on Government gross investment).

Federal transactions are included in the NIPAs as part of the government sector.¹ The Federal subsector 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 subsector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. Also, it covers current transactions only, whereas the budget includes transactions that the NIPA current account omits from its current receipts and current expenditure totals as “capital transfers.” NIPA concepts also differ in many other ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

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 they differ from the budget in netting, timing, and coverage. These differences cause current receipts and expendi-

tures in the NIPAs to differ from total receipts and outlays in the budget, albeit by relatively small amounts.² Differences in timing and coverage also cause the NIPA net Federal Government saving to differ from the budget surplus or deficit. Netting differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. Besides these differences, the NIPAs combine transactions into different categories from those used in the budget.

December 2003 NIPA Revisions.—Comprehensive revisions to the NIPAs introduced in December 2003 significantly changed the way Federal transactions are measured in the NIPAs, and the ways in which the NIPAs differ from the budget. The three most important changes were: 1) reclassification of nontaxes out of current tax receipts into current transfer receipts from persons and from business (net); 2) switching several items formerly netted against expenditures to current receipts: interest and dividends received by Government, the current surplus of Government enterprises, and tax receipts from the rest of the world (formerly netted against transfer payments to the rest of the world); 3) a new receipts category called “income receipts on assets” now includes such items as Outer Continental Shelf oil and gas royalties. The categories into which Government current expenditures and current receipts are broken down in the NIPAs are now significantly different from those used in the past. Terminology has changed also; most notably, government surpluses or deficits are now referred to as net government saving. The effects of these changes are reflected in this chapter.

Netting differences arise when the budget records certain transactions as offsets to outlays while they are recorded as current receipts in the NIPAs (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. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPAs often follow this concept as well, and income to Government enterprises such as the Postal Service or the power administrations is offset against their expenditures—but the NIPAs now treat the net surplus of Government enterprises as a component of current receipts. However, the NIPAs have a narrower definition of “business-type transactions”. Two classes of receipts, rents and royalties, and regulatory or inspection fees, both of which are classified as offsets to outlays in the budget, are recorded in the NIPAs

¹The other subsector of the NIPA government sector is a single set of transactions for all U.S. State and local units of government, treated as a consolidated entity.

²Over the period 1994–2003, NIPA current expenditures averaged four percent higher than budget outlays, while NIPA current receipts averaged two percent higher than budget receipts.

as Government receipts (income receipts on assets and current transfer receipts, respectively). The NIPAs 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 so that total outlays and receipts measure transactions with the public. Government contributions for Federal employee social insurance (such as social security) is 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 Federal employee social insurance as expenditures by the employing agencies and as governmental (rather than offsetting) receipts. The NIPAs 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 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 all receipts when they are received. Thus the NIPAs attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability occurred. The delay between accrual of liability and Treasury receipt of payment can result in significant timing differences between NIPA and budget measures of receipts for any given accounting period.

Timing differences also occur for expenditures. When the first of a month falls on a weekend or holiday, 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, giving rise to a timing difference compared to the budget.

Coverage differences also differentiate the budget and the NIPAs. The NIPA Federal subsector is a current account and excludes capital transfers unrelated to current economic production, which are included in the budget. Federal investment grants to State and local governments, investment subsidies to business, and forgiveness of debt owed by foreign governments are included as outlays in the budget but are excluded from NIPA current expenditures as being capital transfers. Likewise, estate and gift taxes, included in budget receipts, are excluded from NIPA current receipts as

being capital transfers. Also unlike the budget, the NIPAs exclude transactions with U.S. territories. They 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 current production involved.

A 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, 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") as part of "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures is a proxy for the services that capital renders; i.e., for its contribution to Government output of public services.

The treatment of Government pension plan income and outgo creates a coverage difference. Whereas the budget treats employee payments to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays because they are intragovernmental, the NIPAs treat both of these components of employee compensation as personal income, in the same way as it treats contributions to pension plans in the private (household) sector. Likewise, the budget records a Government check to a retired Government employee as an outlay, but under NIPA concepts, no Government expenditure occurs at that time; the payment is treated (like private pension payments) as a transfer of income within the household sector.

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 rather than current production, income, or consumption. In contrast, under the Federal Credit Reform Act of 1990, 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 NIPAs, neither the subsidies nor the loan transactions are included. However, the NIPAs, like the budget, include all interest transactions with the public, including interest received and paid to the loan 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 made NIPA net Government saving

a significantly smaller negative number than the budget deficit that year. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended to make the budget deficit a smaller negative figure than NIPA net Federal Government saving.

Table 13-1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 2003-2005

(In billions of dollars)

Description	Actual 2003	Estimate	
		2004	2005
CURRENT RECEIPTS			
Current tax receipts	1,029.8	1,009.2	1,210.1
Personal current taxes	781.7	721.0	850.4
Taxes on production and imports	90.3	97.4	97.0
Taxes on corporate income	151.0	184.1	256.0
Taxes from the rest of the world	6.8	6.7	6.7
Contributions for Government social insurance	749.8	788.0	846.7
Income receipts on assets	21.4	23.6	24.0
Current transfer receipts	26.3	27.7	30.0
Current surplus of Government enterprises	2.9	-0.6	-1.4
Total current receipts	1,830.2	1,847.9	2,109.5
CURRENT EXPENDITURES			
Consumption expenditures	640.3	706.1	712.3
Defense	424.8	471.2	459.8
Nondefense	215.5	234.9	252.4
Current transfer payments	1,310.5	1,398.8	1,447.2
Government social benefits	955.7	1,010.1	1,060.1
Grants-in-aid to State and local governments	333.3	360.6	356.5
To the rest of the world	21.5	28.1	30.6
Interest payments	217.8	218.5	243.8
Subsidies	49.3	44.0	44.2
Wage disbursements less accruals			
Total current expenditures	2,218.0	2,367.4	2,447.4
Net Federal Government saving	-387.8	-519.5	-338.0
ADDENDUM			
Capital transfer payments (net)	-23.2	-23.4	-26.7
Gross Government investment:			
Defense	58.6	63.8	67.0
Nondefense	37.0	40.8	43.2

* \$50 million or less.

Federal Sector Current Receipts

Table 13-1 shows Federal current receipts in the five major categories and four of the subcategories now used in the NIPAs, which are similar to the budget categories but with significant differences.

Current tax receipts is the largest major category of current receipts, and its personal current taxes subcategory—composed primarily of the individual income tax—is the largest single subcategory. The NIPAs' taxes on corporate income subcategory 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.) The taxes on production and imports subcategory is composed of excise taxes and customs duties.

Contributions for Government social insurance is the second largest major category of current receipts. It differs from the corresponding budget category primarily because: (1) the NIPAs include Federal employer contributions for social insurance as a governmental receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPAs include premiums for Part B of Medicare as governmental receipts, while the budget nets them against outlays; (3) the NIPAs treat Government employee contributions to their pension plans as personal income, while the budget includes them in govern-

mental receipts; and (4) the NIPAs impute employer contributions for Federal employees' unemployment insurance and workers' compensation.

The income receipts on assets category consists mainly of interest payments received on Government direct loans (such as student loans) and rents and royalties on Outer Continental Shelf oil leases. The current transfer receipts category consists primarily of deposit insurance premiums, fees, fines and other receipts from both individuals and businesses—virtually all of which are netted against outlays in the budget. The current surplus (or deficit) of Government enterprises category was formerly netted against subsidies on the expenditure side of the accounts. This is the profit or loss 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.

Federal Sector Current Expenditures

Table 13–1 shows current expenditures in five major NIPA categories and five subcategories, which are also 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 13–1) is thus excluded from current expenditures in computing net Government saving on a NIPA basis, whereas depreciation—charges on federally owned fixed capital—"consumption of general government fixed capital" is included. The NIPAs 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 transfer payments) 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 NIPAs similar to that of the private sector. Investment includes structures, equipment, and computer software.

Current transfer payments is the largest expenditure category. Transfer payments for Government social benefits consist mainly of income security and health programs, such as Social Security and Medicare paid to U.S. residents—and to retirees living outside the U.S. Payment of pension benefits to former Government employees is not included, as explained previously. Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, and education (but capital transfer payments for con-

struction of highways, airports, waste-water treatment plants, and mass transit are excluded). "Current transfer payments to the rest of the world (net) consists mainly of grants to foreign governments.

Interest payments 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). Where the budget nets interest received on loans against outlays, the NIPAs now treat it as current receipts.

Subsidies consist of subsidy payments for resident businesses (excluding subsidies for investment). 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 NIPAs 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

From the introduction of the unified budget in January 1968 until the early 1990s, NIPA receipts were less than budget receipts in most years. This was due principally to the fact that estate and gift taxes, which they exclude as capital transfers, exceeded Medicare premiums, which they include as a governmental receipt but the budget treats as an offsetting receipt. (In the budget, offsetting receipts are netted against the outlay total and not included in the governmental receipts total.) 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 capital transfer grants and pension benefit payments to former Government employees.

Two components of budget outlays, however, are sometimes sufficiently large in combination to exceed the netting adjustments. These are financial transactions and net investment (the difference between gross investment and depreciation). Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 caused those year's budget outlays to 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 made since that time are recorded outside the budget as in the Federal sector of the NIPAs, although, unlike the NIPAs, credit subsidies are recorded as budget outlays.

Table 13-2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPAs

	Actual 2003	Estimate	
		2004	2005
RECEIPTS			
Budget receipts	1,782.3	1,798.1	2,036.3
Contributions to Government employee retirement plans	-4.6	-4.7	-4.7
Capital transfers received	-21.8	-23.8	-21.3
Other coverage differences	-9.8	-10.8	-10.9
Netting and grossing	86.1	91.6	98.4
Timing differences	-2.0	-2.6	11.8
NIPA current receipts	1,830.2	1,847.9	2,109.5
EXPENDITURES			
Budget outlays	2,157.6	2,318.8	2,399.8
Government employee retirement plan transactions	29.3	31.8	31.5
Deposit insurance and other financial transactions	16.8	7.9	15.2
Capital transfer payments	-45.0	-47.2	-48.0
Net purchases of nonproduced assets	-0.1	-0.1	-0.1
Net investment	-5.2	-11.7	-14.4
Other coverage differences	-20.1	-27.6	-37.1
Netting and grossing differences	86.1	91.6	98.4
Timing differences	-1.6	3.8	2.0
NIPA current expenditures	2,218.0	2,367.4	2,447.4
ADDENDUM			
Budget deficit (-)	-375.3	-520.7	-363.6
NIPA net Federal Government saving	-387.8	-519.5	-338.0

* \$50 million or less.

During the period 1975–1992, the budget deficit was a larger negative number than net Federal Government saving as measured in the NIPAs' seasonally adjusted data every year except 1987. The largest difference, \$72.9 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then -\$269.3 billion, while the NIPA net Government saving was -\$196.5 billion. In 1993–2003, the NIPA net Federal Government saving were larger negative numbers than the budget deficit or lower positive numbers than the budget surplus each year. For 2004 and 2005, the NIPA net Federal Government saving are projected to be smaller negative numbers than the budget deficit.

Table 13-1 displays Federal transactions using NIPA concepts with actual data for the 2003 and estimates for 2004 and 2005 consistent with the Administration's budget proposals. Table 13-2 summarizes the reasons for differences between the data. Table 13-3 displays quarterly data using NIPA concepts beginning in October 2002. Annual NIPA data for 2003–2005 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2005*.

Detailed estimates of NIPA current receipts and expenditures will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business* and on the Bureau of Economic Analysis website at <http://www.bea.doc.gov/bea/pubs.htm>.

Table 13-3. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPA's, QUARTERLY, 2003-2005

(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.
	2002	2003	2003	2003	2003	2004	2004	2004	2004	2005	2005	2005
CURRENT RECEIPTS												
Current tax receipts	1,072.7	1,060.3	1,057.1	972.1		978.1	1,008.6	1,042.4	1,080.4	1,186.3	1,222.7	1,256.6
Personal current taxes	815.4	794.3	794.6	696.3		681.5	695.3	712.9	734.2	813.4	836.3	857.8
Taxes on production and imports	89.0	88.3	87.7	86.3		93.7	97.5	98.1	94.7	93.9	94.9	95.7
Taxes on corporate income	161.7	171.0	167.9	182.8		196.3	209.1	224.7	244.9	272.3	284.8	296.4
Taxes from the rest of the world	6.7	6.8	6.9	6.7		6.7	6.7	6.7	6.7	6.7	6.7	6.7
Contributions for Government social insurance	741.9	755.1	758.5	763.1		791.6	802.4	815.1	824.5	844.0	854.6	864.4
Income receipts on assets	22.0	22.5	23.6	24.9		25.6	25.7	25.5	25.5	25.8	26.1	26.5
Current transfer receipts	25.4	26.0	26.3	26.9		27.6	28.1	28.7	29.5	30.0	30.5	30.8
Current surplus of Government enterprises	-2.3	-0.4	-1.6	-2.5		-5.7	-5.7	-5.7	-5.7	-6.1	-6.2	-6.1
Total current receipts	1,859.7	1,863.5	1,863.9	1,784.3		1,817.2	1,859.1	1,906.1	1,954.2	2,080.1	2,127.6	2,172.2
CURRENT EXPENDITURES												
Consumption expenditures	620.7	635.9	668.9	672.3		711.4	723.5	730.2	728.0	724.5	721.2	719.5
Defense	404.6	408.6	447.5	443.7		468.2	475.2	477.6	471.0	462.8	457.3	454.2
Nondefense	216.1	227.3	221.4	228.5		243.2	248.3	252.6	257.1	261.7	263.9	265.3
Current transfer payments	1,270.8	1,287.3	1,339.5	1,348.9		1,392.7	1,404.7	1,424.8	1,433.9	1,457.8	1,452.2	1,452.3
Government social benefits	935.4	951.5	969.7	979.7		1,012.3	1,025.1	1,037.4	1,048.9	1,065.4	1,070.6	1,075.4
Grants-in-aid to State and local governments ..	316.4	310.8	345.5	346.3		343.7	352.9	360.4	355.4	353.2	352.4	347.2
To the rest of the world	19.1	25.1	24.3	22.9		36.8	26.7	27.1	29.5	39.2	29.3	29.7
Interest payments	227.6	217.7	222.5	215.6		218.5	222.1	227.3	235.5	242.7	250.1	257.6
Subsidies	37.0	44.5	56.3	47.0		41.9	40.0	37.8	38.3	40.3	42.3	43.5
Wage disbursements less accruals		-1.4	1.4									
Total current expenditures	2,156.1	2,184.0	2,288.5	2,283.7		2,364.4	2,390.2	2,420.3	2,435.7	2,465.3	2,465.9	2,472.9
Net Federal Government saving	-296.3	-320.4	-424.7	-499.4		-547.3	-531.1	-514.2	-481.5	-385.3	-338.2	-300.7
ADDENDUM												
Capital transfer payments (net)	-19.8	-13.8	-28.4	-29.6		-22.9	-23.9	-23.5	-24.8	-25.7	-26.1	-26.5
Gross Government investment:												
Defense	56.6	54.7	59.8	63.5		65.6	65.5	62.4	66.6	67.2	65.9	68.5
Nondefense	32.7	32.4	36.0	33.8		34.3	34.7	35.1	35.4	36.3	37.4	38.7

Department of Commerce advance estimates for the Oct.-Dec. quarter, released January 30, 2004, were not available in time for inclusion in this table.

* \$50 million or less.