

14. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPAs) are an integrated set of statistics prepared by the Department of Commerce that measure aggregate U.S. economic activity. Because the NIPAs include Federal transactions and are widely used in economic analysis, it is important to understand the differences between the NIPAs' distinctive presentation of Federal transactions and that of the budget.

The main purpose 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 excludes intermediate product to avoid double counting. Government consumption expenditures along with 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).

Not all government expenditures are counted in GDP. Social benefits, grants to State and local governments, subsidies, and interest payments—are not purchases of final output and are therefore not included in GDP; however, these transactions are recorded in the NIPA government account that records current receipts and expenditures (including depreciation on government gross investment) because all of these affect the government's claim on economic resources.

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 framework 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. For example, it omits from its current receipts and current expenditures certain "capital transfers" that are recorded in the budget. 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 and as a result they differ from the budget in netting and grossing, timing, and coverage. These differences cause current receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget, albeit by rel-

atively small amounts.² Differences in timing and coverage also cause the NIPA measure of net Federal Government saving to differ from the budget surplus or deficit. Unlike timing and coverage differences, netting and grossing differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. The NIPAs also combine transactions into different categories from those used in the budget.

Netting and grossing differences arise because the budget records certain transactions as offsets to outlays that are recorded as current receipts in the NIPAs (or vice versa). The budget treats as governmental receipts all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes. 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 income to Government revolving accounts (such as the Government Printing Office) is offset against their expenditures. However, the NIPAs have a narrower definition of "business-type transactions" than does the budget. Rents and royalties, and some regulatory or inspection fees, which are classified as offsets to outlays in the budget, are recorded in the NIPAs 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 addition, the NIPAs treat the net surplus of Government enterprises as a component of current receipts.

In the budget, any intragovernmental income paid from one account to another is offset against outlays rather than being recorded as a receipt so that total outlays and receipts measure only transactions with the public. For example, Government contributions for Federal employee social insurance (such as Social Security) are offset 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 recorded explicitly in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPAs impute the social insurance contributions to the expenditures of employing agencies—again, treating the Federal Government like any other employer.

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 1994–2007, NIPA current expenditures averaged 3.6 percent higher than budget outlays, while NIPA current receipts averaged 2.5 percent higher than budget receipts.

Timing differences for receipts occur because the NIPAs generally record 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 day of a month falls on a weekend or holiday, monthly benefit checks normally mailed on the first day 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. As a result, the budget totals occasionally 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 arise 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 NIPA Federal current account 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 can be thought of as a proxy for the services that capital renders; i.e., for its contribution to Government output of public services. The depreciation charge is not a full reflection of capital services, however, since it does not include the net return to capital that in a private corporation would appear as interest income or profit. The NIPAs would need to include an imputed interest charge for government capital to assure a fully parallel treatment.

Certain items in the budget are excluded from the NIPA Federal current account because they are related to the acquisition or sale of assets, and not linked to current consumption or income. Examples include Federal investment grants to State and local governments, investment subsidies to business, lump sum payments to amortize the unfunded liability of the Uniformed Services Retiree Health Care Fund and the new Postal Service Retiree Health Benefits Fund, and forgiveness of debt owed by foreign governments. Likewise, estate and gift taxes, included in budget receipts, are excluded from NIPA current receipts as being capital transfers. They also exclude the proceeds from the sales of non-produced 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 from the Federal current account as an exchange of assets with no current production involved. The NIPAs are not strictly consistent in this interpretation, however, since they do include in total revenues the taxation of capital

gains. Also unlike the budget, the NIPAs exclude transactions with U.S. territories.

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 employer contributions as personal income and employee payments as a transfer of income within the household sector, 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 at the time 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. This treatment recognizes that a Federal direct loan is an exchange of assets with equal value after allowing for the subsidy to the borrower implied by the terms of the loan. It also recognizes the subsidy element in loan guarantees. In the NIPAs, these subsidies are not recognized. The NIPAs, like the budget, include all interest transactions with the public, including interest received by and paid to the loan financing accounts; and both the NIPAs and the budget include administrative costs of credit program operations.

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.

Federal Sector Current Receipts

Table 14-1 shows the NIPA classification of Federal current receipts in five major categories and four of the subcategories used to measure taxes, which are similar to the budget categories but with some significant differences.

Current tax receipts is the largest category of current receipts, and its personal current taxes subcategory—

Table 14–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1998–2009

(In billions of dollars)

Description	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Estimate	
											2008	2009
CURRENT RECEIPTS												
Current tax receipts	1,105.9	1,165.2	1,305.6	1,266.9	1,089.7	1,065.9	1,113.8	1,328.9	1,515.5	1,644.0	1,555.0	1,701.6
Personal current taxes	814.1	868.5	987.4	993.8	851.1	781.7	778.7	914.1	1,037.8	1,149.3	1,079.3	1,234.4
Taxes on production and imports	80.7	82.5	87.8	86.4	86.4	89.1	93.2	98.1	99.0	100.5	102.2	103.0
Taxes on corporate income	205.9	207.9	223.5	179.5	144.7	186.8	232.7	305.0	367.6	380.5	360.9	351.7
Taxes from the rest of the world	5.2	6.2	6.8	7.1	7.4	8.3	9.3	11.7	11.1	13.7	12.6	12.6
Contributions for government social insurance	604.4	642.2	687.8	713.8	729.6	749.9	795.1	843.4	887.6	937.2	981.0	1,032.8
Income receipts on assets	22.3	20.9	24.3	26.4	21.3	21.4	23.7	24.9	24.3	25.9	26.0	28.3
Current transfer receipts	21.0	21.8	24.9	26.5	25.5	24.7	27.7	11.0	35.0	35.7	37.7	42.4
Current surplus of government enterprises	–*	0.3	–1.3	–6.5	–1.1	2.5	0.2	–5.2	–3.7	–1.9	–0.4	–0.2
Total current receipts	1,753.5	1,850.3	2,041.2	2,027.1	1,865.0	1,864.4	1,960.6	2,203.0	2,458.7	2,641.0	2,599.2	2,805.0
CURRENT EXPENDITURES												
Consumption expenditures	452.9	469.5	496.0	519.7	575.5	648.0	706.6	757.9	800.3	841.6	912.1	1005.6
Defense	301.3	307.2	321.2	335.7	368.4	424.5	470.4	507.8	532.1	568.0	604.7	679.0
Nondefense	151.6	162.3	174.8	184.0	207.1	223.5	236.2	250.2	268.2	273.6	307.4	326.6
Current transfer payments	940.3	976.3	1,023.2	1,108.0	1,216.6	1,308.9	1,377.5	1,462.8	1,548.4	1,644.1	1,738.2	1,808.8
Government social benefits	716.4	733.0	762.7	823.6	900.9	956.3	1,005.1	1,071.6	1,154.5	1,241.0	1,311.5	1,377.3
Grants-in-aid to State and local governments ..	209.9	227.7	244.1	268.2	296.7	329.3	347.6	359.5	360.8	370.8	390.9	398.2
Other transfers to the rest of the world	14.0	15.7	16.4	16.3	19.0	23.2	24.7	31.7	33.1	32.2	35.9	33.4
Interest payments	299.7	285.9	283.3	267.9	234.9	214.6	216.8	243.1	284.1	302.8	319.2	338.0
Subsidies	33.6	36.1	49.6	53.7	37.9	46.1	43.5	55.0	52.7	45.6	52.5	45.9
Wage disbursements less accruals												
Total current expenditures	1,726.5	1,767.8	1,852.0	1,949.3	2,064.9	2,217.6	2,344.4	2,518.9	2,685.6	2,834.0	3,022.0	3,198.3
Net Federal Government saving	27.0	82.4	189.2	77.8	–199.9	–353.2	–383.8	–315.8	–226.9	–193.0	–422.7	–393.3
ADDENDUM: TOTAL RECEIPTS AND EXPENDITURES												
Current receipts	1,753.5	1,850.3	2,041.2	2,027.1	1,865.0	1,864.4	1,960.6	2,203.0	2,458.7	2,641.0	2,599.2	2,805.0
Capital transfer receipts	23.9	27.6	28.8	28.2	26.4	21.7	24.7	24.6	27.7	25.8	26.5	26.1
Total receipts	1,777.4	1,877.9	2,070.1	2,055.3	1,891.3	1,886.1	1,985.3	2,227.6	2,486.4	2,666.8	2,625.8	2,831.1
Current expenditures	1,726.5	1,767.9	1,852.0	1,949.3	2,064.9	2,217.6	2,344.4	2,518.9	2,685.6	2,834.0	3,022.0	3,198.3
Net investment:												
Gross government investment:												
Defense	45.4	46.5	48.5	49.9	54.5	59.0	65.1	72.3	77.2	81.9	94.0	95.5
Nondefense	29.7	31.9	32.2	30.3	32.6	33.3	33.6	35.9	40.5	38.4	39.2	39.2
Less: Consumption of fixed capital:												
Defense	59.8	59.7	60.2	60.3	60.4	61.4	63.4	67.0	71.2	74.9	78.1	81.3
Nondefense	22.9	24.5	26.5	27.7	28.2	28.7	29.3	30.8	32.6	33.4	36.8	39.9
Capital transfer payments	28.2	31.3	39.3	39.8	44.3	62.0	62.9	66.0	69.2	76.7	91.4	95.2
Net purchases of nonproduced assets	–5.3	–1.7	–0.3	–0.9	0.3	*	0.1	–0.7	–0.3	–13.6	–15.5	–2.5
Total expenditures	1,741.8	1,791.8	1,885.1	1,980.3	2,108.0	2,281.9	2,413.5	2,594.5	2,768.4	2,909.0	3,116.2	3,304.5
Net lending or net borrowing (–)	35.7	86.1	185.0	75.0	–216.7	–395.8	–428.1	–366.9	–281.9	–242.2	–490.4	–473.5

* \$50 million or less.

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 income taxes, while the budget treats these collections as miscellaneous re-

ceipts. (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 category of current receipts. It differs from the corresponding budget category primarily be-

cause: (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 Parts B and D of Medicare as governmental receipts, while the budget nets them against outlays; (3) the NIPAs treat Government employee contributions to their pension plans as a transfer of personal income within the household sector (as if the pension system were private), while the budget includes them in governmental 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, less insurance settlements from the National Flood Insurance Program—virtually all of which are netted against outlays in the budget. The current surplus (or deficit) of Government enterprises category 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 14-1 shows the five major NIPA categories for current expenditures and five subcategories, which differ greatly from the corresponding budget categories.

Government consumption expenditures consist of goods and services purchased by the Federal Government, including compensation of employees and depreciation on fixed capital. Gross investment (shown among the addendum items in Table 14-1) is thus excluded from current expenditures and does not figure 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, Government gross investment is included in total GDP along with current consumption expenditures (including depreciation), which makes the treatment of the government sector in the NIPAs similar to that of the private sector. Investment includes structures, equipment, and computer software.

The largest expenditure category consists mainly of current transfer payments for Government income security and health benefits, such as Social Security and

Medicare. 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 construction of highways, airports, wastewater 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 consist of 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 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, as explained previously loans and guarantees 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

Since the introduction of the unified budget in January 1968, NIPA current receipts have been greater than budget receipts in most years. This is due principally to grossing differences and the fact that estate and gift taxes, which the NIPAs exclude as capital transfers, have been roughly matched by Medicare premiums, which the NIPAs include as a governmental receipt but the budget treats as an offsetting receipt. (In the budget, offsetting receipts are not included in the governmental receipts total but instead are netted against the outlay total.) Since 1986, 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 usual netting and grossing 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, the cost of direct loans to the public recorded in the budget has been reduced bringing it closer to the NIPA treatment. Disbursement and repayment of loans made since that time are recorded outside the budget; only credit subsidies are recorded as budget outlays, unlike the

Table 14-2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA's

Description	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Estimate	
											2008	2009
RECEIPTS												
Budget receipts	1,722.0	1,827.6	2,025.5	1,991.4	1,853.4	1,782.5	1,880.3	2,153.9	2,407.3	2,568.2	2,521.2	2,699.9
Contributions to government employee retirement plans	-4.3	-4.5	-4.8	-4.7	-4.6	-4.6	-4.6	-4.5	-4.4	-4.3	-4.7	-4.8
Capital transfers received	-23.9	-27.6	-28.8	-28.2	-26.3	-21.7	-24.7	-24.6	-27.7	-25.8	-26.5	-26.1
Other coverage differences	-5.8	-7.0	-8.0	-7.9	-8.9	-9.0	-10.4	-11.3	-11.7	-12.3	-13.2	-14.3
Netting and grossing	64.5	65.7	70.6	69.9	77.0	85.1	89.7	75.0	108.3	117.5	127.9	140.0
Timing differences	1.1	-3.9	-13.2	6.7	-25.6	32.1	30.3	14.4	-13.0	-2.4	-5.4	10.1
NIPA current receipts	1,753.5	1,850.3	2,041.2	2,027.1	1,865.0	1,864.4	1,960.6	2,203.0	2,458.7	2,641.0	2,599.2	2,805.0
EXPENDITURES												
Budget outlays	1,652.7	1,702.0	1,789.2	1,863.2	2,011.2	2,160.1	2,293.0	2,472.2	2,655.4	2,730.2	2,931.2	3,107.4
Government employee retirement plan transactions	31.3	32.1	31.7	31.5	33.7	33.1	33.5	39.4	42.1	41.1	51.2	55.7
Deposit insurance and other financial transactions	-7.1	-6.1	-9.0	-6.2	-6.7	2.1	0.4	7.1	-3.4	12.7	21.7	13.3
Capital transfer payments	-28.2	-31.3	-35.1	-39.8	-44.1	-45.4	-46.4	-47.7	-51.2	-76.7	-91.4	-95.2
Net purchases of nonproduced assets	5.3	1.7	0.3	0.9	-0.3	*	-0.1	0.7	0.3	13.6	15.5	2.5
Net investment	7.6	5.7	6.0	7.9	1.4	-2.3	-6.1	-10.3	-13.9	-11.8	-18.4	-13.5
Other coverage differences	1.0	2.7	4.0	7.9	-0.6	-13.5	-21.3	-26.5	-38.4	-6.3	-12.5	-7.2
Netting and grossing differences	64.5	65.7	70.6	69.9	77.0	85.1	89.7	75.0	108.3	117.5	127.9	140.0
Timing differences	-0.7	-4.7	-5.6	14.3	-6.7	-1.6	1.6	8.9	-13.6	13.7	-3.3	-4.6
NIPA current expenditures	1,726.5	1,767.8	1,852.0	1,949.3	2,064.9	2,217.6	2,344.4	2,518.9	2,685.6	2,834.0	3,022.0	3,198.3
ADDENDUM												
Budget surplus or deficit (-)	69.3	125.6	236.2	128.2	-157.8	-377.6	-412.7	-318.3	-248.2	-162.0	-410.0	-407.4
NIPA net Federal Government saving	27.0	82.4	189.2	77.8	-199.9	-353.2	-383.8	-315.8	-226.9	-193.0	-422.7	-393.3

* \$50 million or less.

NIPAs which do not include this element of government expenditure.

Every year during the period 1975–1992, the budget deficit exceeded in absolute value net Federal Government saving as measured in the NIPAs. The largest difference, \$78.8 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then -\$269.2 billion, while the NIPA net Government saving was -\$190.5 billion. In 1993–2002, NIPA net Federal Government saving exceeded the budget deficit in absolute value when the budget was in deficit and fell short of the budget surplus during the years the budget was in surplus. For 2003–2006, and again for 2009, the NIPA net Federal Government saving was, or is estimated to be, smaller

than the budget deficit in absolute value, while for 2007 and 2008 the reverse is the case.

Table 14-1 displays Federal transactions using NIPA concepts with actual data for 1998–2007 and estimates for 2008 and 2009 consistent with the Administration's budget proposals. Table 14-2 summarizes the reasons for differences between the data. Annual NIPA data for 1948–2009 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2009*.

Detailed estimates of NIPA current receipts and expenditures consistent with the budget and including quarterly estimates 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 www.bea.doc.gov/bea/pubs.htm.