

the other hand, the Federal land banks are excluded because the Federal Government no longer has any financial interest in the banks.

Basis of measurement. Except for the treatment of government enterprises considered above, all purchases of currently produced goods and services by government agencies are considered to be final products and hence enter into the final output of the economy. The reasoning rests mainly on the fact that the general government is an ultimate buyer in the sense that it does not buy for resale in the market and, accordingly, its purchases are not elements of cost in the value of other output produced for the market.⁶⁹

This rationale omits any reference to the extent to which government goods and services actually do enter into the final product which business firms produce. According to Hicks, some part of the government output is not final product but "plays its part in production by facilitating the production of other goods (maintenance of law and order, roads used for business purposes, and so on). To reckon this as well as the goods whose output is facilitated would involve double counting."⁷⁰

To report government transactions consistent with the corresponding payments and receipts recorded for the business sector an adjustment is made to an accrual basis to reflect generally the time of delivery rather than the time of payment. This adjustment represents the net increase in accounts payable to business, less the net increase in outstanding advances and prepayments by the Federal Government, as computed from a number of sources including the surveys of corporate working capital by the Securities and Exchange Commission.

Charges in concepts. Until 1946, both government and private interest payments on debt were considered to be income according to the concepts underlying the official national income statistics of the United States. In that year, Federal interest payments on the public debt were excluded from government purchases of goods and services and treated as transfers.

The reasoning behind this change was that the Federal debt has come into existence primarily in connection with the financing of wars and the interest payments therefore do not reflect the acquisition of current output. The earlier treatment considered these payments as return to government bondholders for the use of their money, paralleling the treatment of interest on private indebtedness.⁷¹

A number of students of public finance have questioned the change. Earl Rolph states that it is "not obvious" that the differences between government debt and private debt are such that they justify such a radically different treatment of interest payments.⁷² Rolph shows that there is an inconsistency between treating government interest expenditures as transfers and the usual definition of what constitutes a transfer payment:

The crucial negative feature of the definition—that transfer income is not in return for services or products—appears to be generally held, whether the definition is stated as "no contribution to social product", "no specific quid for the specific quo rendered", or a failure to "enhance the production of economic values".⁷³

⁶⁹ Milton Gilbert and others, "Objectives of National Income Measurement: A Reply to Professor Knznets," *Review of Economic Statistics*, August 1948, p. 183.

⁷⁰ J. R. Hicks, "The Valuation of the Social Income," *Economica*, May 1940, p. 118.

⁷¹ Gilbert and others, *op. cit.*, pp. 192-193.

⁷² Earl R. Rolph, *The Theory of Fiscal Economics*, Berkeley and Los Angeles, University of California Press, 1954, p. 59.

⁷³ *Ibid.*, p. 58.