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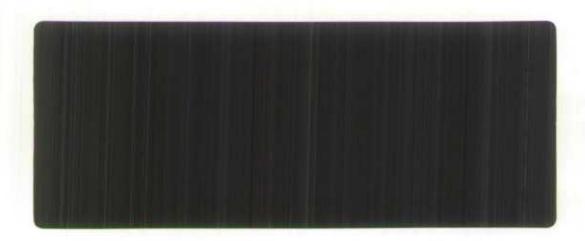
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TRANSFER PAYMENTS IN NATIONAL

ACCOUNTS AND GRANTS ECONOMICS

BY

P.S.K. MURTY AND YUSUF SIDDIQI

48

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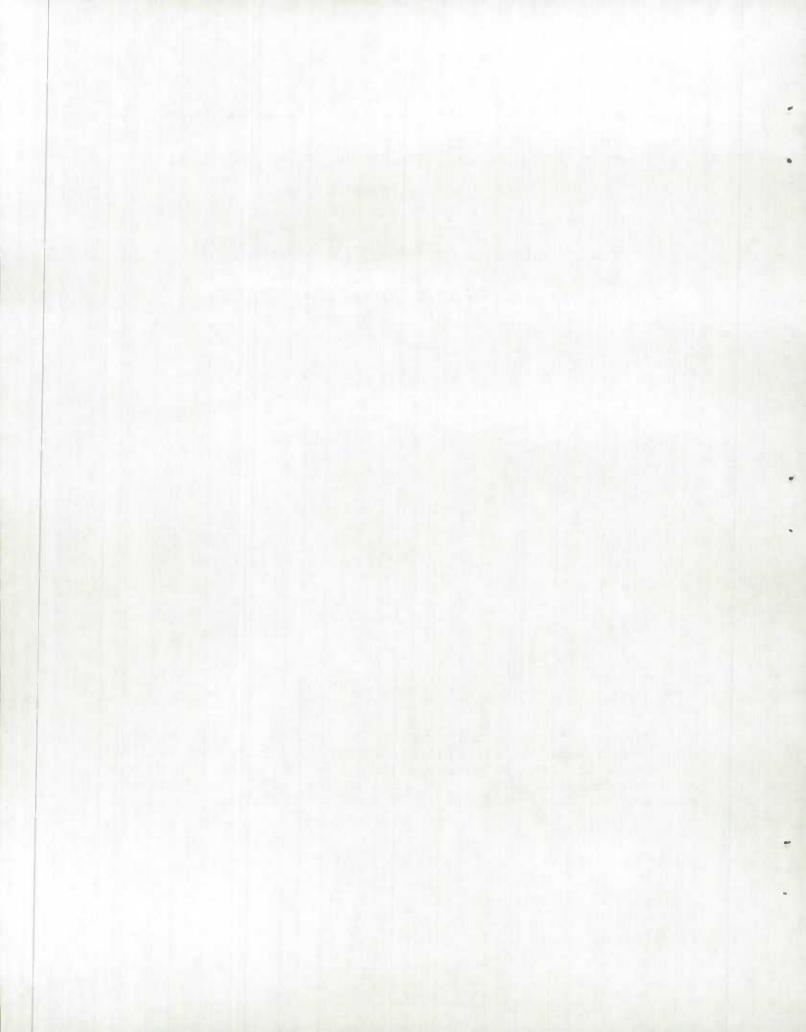
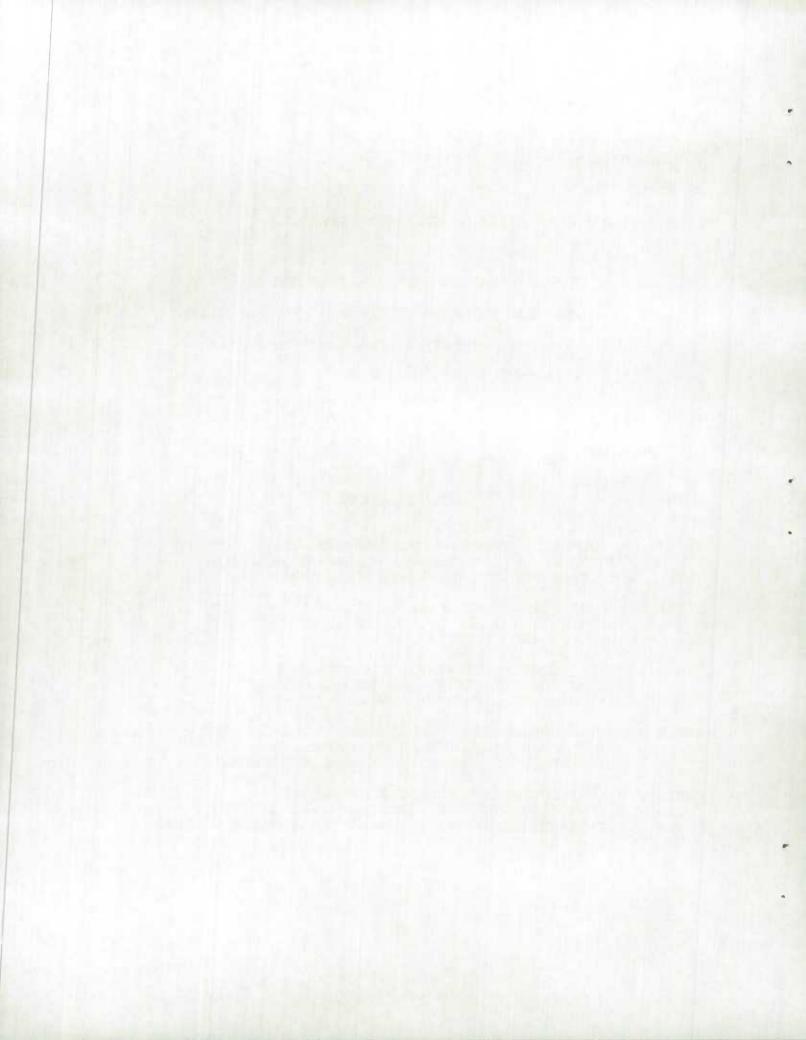


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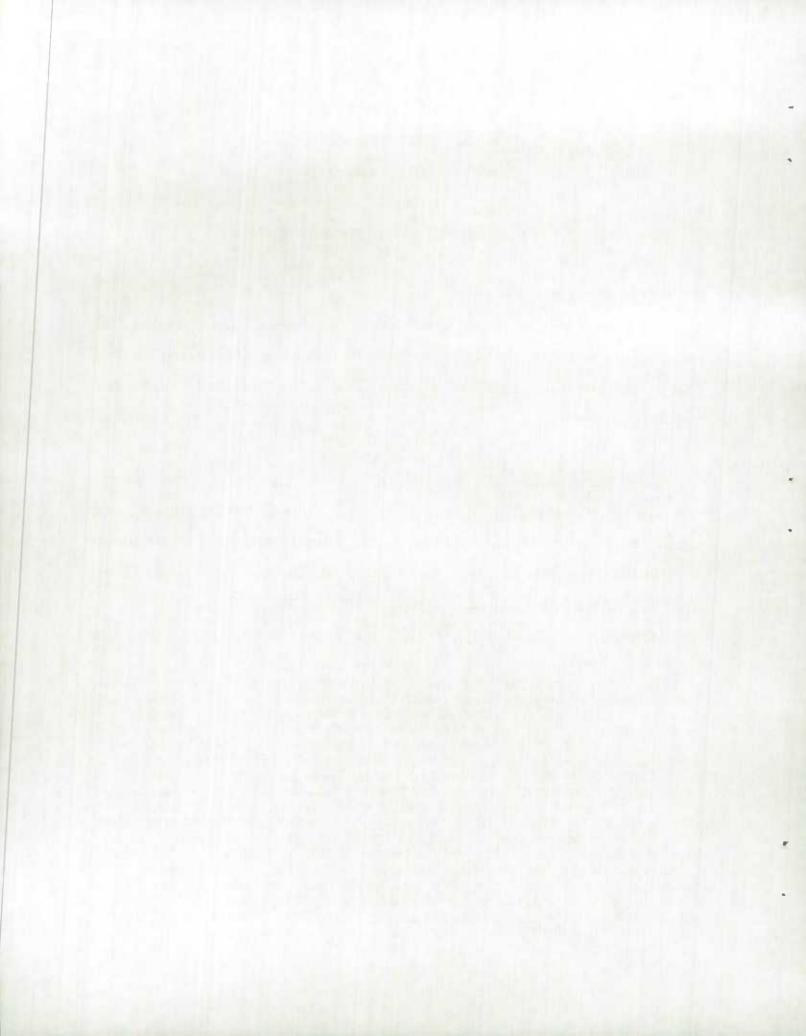
P.S.K. MURTY AND YUSUF SIDDIQI*

I <u>Introduction</u>

In recent years, government spending (expenditure on goods and services as well as transfer payments), budget deficits and public debt, have been receiving widespread attention, both in Canada and the United States.

In Canada, for the last several years, the transfer payments component, essentially public grants, grew faster than the expenditure on goods and services. The transfer payments component (including interest on the public debt) which was about \$4 billion in 1961 rose 37-fold to about \$150 billion by 1989. The expenditure on goods and services which was about \$8 billion in

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1961 increased 17-fold to about \$137 billion by 1989. Also, as a proportion of total government spending, the transfer payments category which was 36% in 1961 rose to 52% by 1989 while the expenditure on goods and services which was 64% of government spending in 1961 declined to 48% by 1989. Because of the growing importance of transfer payments in Canada, and because, by definition, transfer payments in National Accounts should represent "grants", we felt that a thorough review of these transfer payments was needed using the framework of "grants" concept of Grants Economics. This review would also point out any divergences in the Canadian practice.

II Background

At the outset, it is useful to recall, from the Grants Economics literature, the role of government to better appreciate the patterns of government spending including transfer payments. Professor Kenneth Boulding, in his paper "The Role of Government in a Free Economy", states that "the functions of government... can be divided fairly simply into the provision of public goods and the reduction of public bads through taxes, public purchases and grants". Public goods, says Boulding, are those that "will not be supplied adequately through a system of markets and private property, simply because they cannot be appropriated". Highways, parks, courts and the legal system, public health systems, water

¹Kenneth E. Boulding, "The Role of Government in a Free Economy", Review of Social Economy, December 1982, Volume 3, p. 420.

supplies and utilities are examples of "public goods", while crime, the arms races, pollution, and poverty are examples of "public bads". Thus, the government fulfils its role through two categories of spending: (1) direct purchases of goods and services to deliver services on one hand; and (2) redistribution of income by transfer payments on the other hand.

The division of government spending between the two main categories mentioned in Boulding's paper is consistent with the one recommended in the System of National Accounts (SNA). In that system, a similar subdivision of government spending into two broad categories is recommended to articulate: (a) expenditure on goods and services and (b) transfers to other sectors of the economy². The category of transfers is supposed to include all unrequited transfers which are neither "contractual nor quid pro quo in character"³. The Canadian SNA also defines two kinds of government spending: goods and services representing "a two-way exchange between transactors" where there is a "quid pro quo" (an equivalent in return); and transfer payments "involving a unilateral transfer in which there is no quid pro quo"⁴. Boulding et al. define a

²United Nations, <u>A System of National Accounts</u>, Studies in Methods, Series F, No. 2, Rev. 3, New York, 1968, Table C, Accounts 3 and 5, General Government, p. 161.

³Ibid, pp. 127-129.

⁴National Income and Expenditure Accounts, Volume 3, A Guide to the National Income and Expenditure Accounts, Definitions-Concepts-Sources-Methods, Statistics Canada, Catalogue 13-549E, Ottawa, September 1975, p. 104.

grant as "a one-way transfer of exchangeables, which in an accounting sense increases the net worth of the recipient and diminishes the net worth of the grantor". In other words, if A gives something exchangeable to B and if B gives nothing exchangeable to A, the transaction will fall in the definition of "one-way transfer" or a "grant". This concept is the same as the one assigned to "transfer payments" in the National Accounts.

Incidentally, it is worth recalling the following guidelines advocated by Professor Hicks et al. for any method of modern economic investigation⁷.

"The method of modern economic investigation is the same as the method of all science. Economics studies facts and seeks to arrange the facts in such ways as make it possible to draw conclusions from them. As always, it is the arrangement which is the delicate operation. Facts arranged in the right way, speak for themselves; unarranged, they are as dead as mutton. One of the main things we have to learn is how to arrange our facts properly."

⁵Kenneth E. Boulding, Martin Pfaff, Janos Horvath. "Grants Economics. A Simple Introduction", <u>American Economist</u>, Spring 1972 pp. 19-20. Also, see Janos Horvath, "Rural America and the Grants Economy", <u>American Journal of Agricultural Economics</u>, December 1971, 53 (5), p. 740.

⁶Kenneth E. Boulding, Martin Pfaff, and Janos Horvath, "Grants Economics: A Simple Introduction", op. cit., p. 20; Also, see Janos Horvath, "On the Evaluation of International Grants Policy", <u>Public Finance</u>, 1971, 26 (2), pp. 379-393.

⁷J.R. Hicks, Albert Gailord Hart and James W. Ford, <u>The Social Framework of the American Economy</u>, Oxford University Press, New York, 1955, p. 5.

This paper reviews the Canadian SNA database of government transfer payments in the context of "grants" defined by Boulding et al. in the Grants Economics, analyzes divergences, and recommends a new presentation of government transfer payments data by reclassifying the divergences to the categories to which they properly belong, so that an objective economic analysis of the programs can be carried out before making appropriate policy decisions. However, government policies about transfer payments are not discussed here as they are beyond the scope of this study. This paper also demonstrates that such a review and reclassification of data into a new paradigm proposed here are essential to improve the quality of government database by reflecting reality which is highly essential for policy decisions.

III Review and Analysis of Presently Published Database

1. <u>Overview</u>

We reviewed the published detail of transfer payments and filtered them through the "grants" concept advocated by Boulding et al. As a result, several items were disqualified from the category of "transfer payments" and reclassified to the categories they represent. Consequently, a new structure of database has been developed in this study. A main objective of this new structure is to provide a database containing only the legitimate grants in the transfer payments category for an objective analysis.

In the Canadian SNA, government transfer payments are shown in the following four categories, following the recommendations of the United Nations⁸. Therefore, the review and analysis of transfer payments in this study cover only those four categories.

- (1) Transfer payments to the personal sector
- (2) Transfer payments to non-residents
- (3) Transfer payments to the business sector
 - subsidies
 - capital assistance
- (4) Interest on the public debt

Among the recipients of the total transfer payments, the personal sector ranked first, and interest on the public debt was second. However, the growth of transfer payments to the personal sector was less pronounced than interest on the public debt. In 1961, transfer payments to the personal sector stood at about \$3 billion while interest on the public debt was about \$1 billion. By 1989, transfer payments to the personal sector rose to about \$76 billion--a 25-fold increase--while interest on the public debt grew to about \$58 billion--a 58-fold increase (Table 1).

The business sector's share of transfer payments also increased from about \$0.4 billion in 1961 to about \$14 billion in 1989 -- a 35-fold rise. Transfers to the business sector are of two

⁸United Nations, <u>A System of National Accounts, op. cit.</u>, pp. 127-29, 161.

types: subsidies and capital assistance. Subsidies were the largest component of transfer payments to the business sector. For example, in 1989, they were about \$12 billion or 83% of the total (Table 1).

This overview was based on the published database. Now we proceed to analyze the content.

2. Transfer Payments to the Personal Sector

Government transfer payments to the personal sector include payments such as pensions for past service, Canada and Quebec pension payments; workers' compensation; unemployment insurance benefits; grants to universities, postsecondary educational institutions and other non-profit institutions; old age security payments; family and youth allowances, scholarships and fellowships; adult occupational training payments; assistance to immigrants and farmers; international assistance; and payments to the disabled among others.

⁹In Canada, governments in all provinces are involved in financing and planning university development. A substantial amount (over 75%) of the operating revenues of universities are derived from the government sector. For more information, refer to Financial Statistics of Eduction, 1982-83, Statistics Canada, Catalogue 81-208, Ottawa, January, 1987, p. 75; Also, see Canada Year Book, 1980-81, Statistics Canada, Catalogue 11-402E Ottawa, p. 215.

¹⁰ The old-age security pension has been in effect since 1952. It provides monthly benefits to all persons aged 65 and older provided the resident requirements are met. The federal family allowance programs, established at the end of World War II, provides a monthly allowance for each child up to age 16. In 1964, under the Youth Allowances Act, this allowance was extended to include children aged 17 and 18 who continued to attend school. This scheme is scheduled to be phased out in December 1992.

By definition, these items should have no element of quid pro quo. However, when the concepts of Grants Economics are applied to those items, some did not meet with the criteria established for "grants". In such cases, these payments were either deferred payments from funds contributed by the recipients, or indirect purchases of goods and services through third parties for delivery of public services to society.

Some payments to the personal sector, such as pension payments for past service, Canada and Quebec pension payments, workers' compensation payments, and unemployment insurance benefits, are from contributory plans. The employers' contributions to these plans are quid pro quo expenditures of the government as they are merely "deferred payments" to employees for their services. As such, they are already treated in the Government Accounts as well as in the SNA as supplementary labour income payments in the year during which the contributions were made.

Employees, on the other hand, are contributing with the understanding that they will receive the funds when qualified. For example, when employees retire, they expect pensions from the funds to which they contributed, whether the government kept the contributions "in trust" or whether it spent them. In effect, then, the contributions in these cases are intended to be held in "trust funds" until the contributors qualify for payment.

These "trust funds" will earn income based on the investments that the government makes, and this income will become part of the funds for disbursement, similar to the operations of a private business enterprise. Therefore, these "trust Funds" should be treated as unincorporated government business enterprises, but not as part of general government. In other words, they should be a part of business sector, but not government sector. These "trust funds" are in fact rendering financial services and their "surplus" funds belong to the management of the "trust funds" similar to any business organization. Their primary purpose is not to incur financial losses and they all strive to have surpluses for resources to meet future liabilities just like any business organizations. If they sustain losses, the government may transfer funds to offset those losses and such transfers alone fall in the definition of grants defined in the Grants Economics. government transfer payments out of these "trust funds" are merely the return of funds received for disbursement at the appropriate time. In this sense, the contributions are similar to bank deposits while the payments are synonymous to withdrawals. When we deposit money in a bank account and then withdraw it, the withdrawal cannot be considered a transfer or grant. By labeling government payments made out of the "trust funds" as transfer payments, these payments to the personal sector are over-estimated.

Therefore, both the contributions and investment income they generated (currently included in government revenues) and the

repayments (currently included in transfer payments) should be excluded from the government sector's current operations accounts and reclassified to the status of "trust fund" transactions. This procedure would eliminate the payments for pensions, unemployment insurance, Canada and Quebec pensions, and worker's compensation benefits¹¹ from the present category of government transfer payments to persons. The amounts in these cases are substantial, about \$32 billion or 43% of the published total transfer payments of \$76 billion in 1989 (Table 1).

In addition, payments to universities, postsecondary educational institutions, and other non-profit organizations including Indian Bands¹² are included in transfer payments to the Personal sector and they contain an element of quid pro quo. As such transfer payments enable these institutions to finance their operations to deliver specific services to the personal sector on behalf of the government sector, they too should be excluded from transfer payments and included in the government expenditure on goods and services. The institutions receiving the payments are in fact rendering a service to the personal sector on behalf of the

¹¹ These programs include: Federal Pensions - World Wars I and II, War Veterans Allowances, Re-establishment credits, Rehabilitation credits, Unemployment insurance benefits, Pensions to government employees, and Canada Pension Plan benefits; Provincial Workers' Compensation Benefits, Provincial Pensions to government employees, and Quebec Pension Plan benefits.

¹² For more information on the administration of Native peoples in Canada, see <u>Canada Year Book</u>, 1980-81, Statistics Canada, Catalogue 11-402E, Ottawa, April 1981, pp. 80, 118, and 138.

government sector. For example, universities and other educational institutions are given funds to deliver education services; payments to "native peoples organizations" and to local initiative programs are given to deliver some other predetermined services to the personal sector. Therefore, an exchange between the donor and the recipient is implied in these payments. According to the United Nations SNA, such payments by government to non-profit institutions should be classified as "government expenditure on goods and services" and therefore they should be removed from transfer payments to the Personal sector and included in the government expenditure on goods and services.¹³

In general, government expenditures on goods and services are intended to produce and deliver public services directly. However, in certain instances, the government may choose to provide funds to non-profit institutions to produce and deliver services that the government sector does not. These cases involve "indirect quid pro quo", because an exchange takes place, though the services are not delivered directly by government. In these cases, the government, instead of delivering specific services to the public directly, are choosing to provide those services indirectly through third parties. The funds for the delivery of those services should not be regarded as grants under Grants Economics concepts. Though the services are not delivered directly by government, an exchange

¹³United Nations, <u>A System of National Accounts</u>, op. cit., p. 75 (Para. 5.28), p. 105 (Para. 6.92), and p. 110 (Para. 6.100).

takes place and the element of quid pro quo is present between the donor and the recipient. Therefore, the government payments to those institutions should not be included in "transfer payments", but should be regarded as government expenditure on goods and services.

All such transfer payments described above with an element of exchange or "indirect quid pro quo" have been identified. In 1989, the sum is about \$13 billion or 17% of the published transfer payments to persons. We have added them to the currently published government expenditures on goods and services (Table 1) and removed them from the published transfer payments category to derive payments with only grant elements (Tables 1, 1A, 2, 3, and 4).

Thus, by removing the items falling into the two categories (payments out of "trust funds", and payments that have the element of quid pro quo), we derive the items that are qualified in transfer payments or grants category. These grants amounted to about \$30 billion or 40% of the published total transfer payments to persons in 1989 (Tables 1 and 1A). They include: family and youth allowances; old age security payments; scholarships and

¹⁴These grant payments are: Federal Family and Youth Allowances, Old Age Security Payments, Grants from the Canada Council, Adult Occupational Training Payments, Assistance to Immigrants, Prairie Farm Assistance Act (existed up to 1973 in small amounts), Payments to Western Grain Producers (existed in 1962 only), and Grants in support of International Assistance Programs; Provincial Government Direct Relief, Old Age and Blind Pensions, Mother's and Disabled Persons Allowances, Miscellaneous; and Local Government Direct Relief.

fellowships; adult occupational training payments; assistance to immigrants and farmers; international assistance; payments to disabled persons, among others. These "grant" payments after reclassification of the published data made up only about 4% of GDP in 1961 and 5% in 1989, and are much smaller than the payments before reclassification at about 7% in 1961 and 12% in 1989 (Table 4).

In summary, then, the presently published government transfer payments to persons has three components:

- (i) trust fund payments which rose to 43% in 1989 from about 33% of the total in 1961;
- (ii) indirect quid pro quo payments which rose to 17% in 1989 from 11% of the total in 1961;
- (iii) grants which declined substantially to 40% in 1989 from 55% of the total in 1961.

Thus, our review of transfer payments to persons in the context of Grants Economics has revealed that the apparent growth in the published figures was for the items not belonging to the grants category (Tables 1 and 1A). The grants component actually declined.

Based on this analysis, the existing transactions on the transfer payments to persons can be re-classified into three types:

- (i) Transfer payments that meet the definition of grants in the Grants Economics literature (that is, no quid pro quo).
- (ii) Payments similar to "trust fund" withdrawals.
- (iii) Payments with an element of indirect quid pro quo.

The transfer payments in National Accounts should include only the first type which meets the definition of grants in Grants Economics. The second type should be included in the Trust Funds while the third type should be included in government expenditure on goods and services as there is an element of quid pro quo.

3. Transfer Payments to the Non-resident Sector

This is relatively a smaller component of government transfer payments. In 1961, the published data of transfer payments to the non-resident sector were about \$0.08 billion (\$77 million) and they rose to about \$2.3 billion by 1989.

A similar reclassification procedure has been followed for these transfer payments also. Our analysis has revealed that these transfers contain official contributions to international agencies for aid programs and pensions to Canadians and others living abroad. Here again, based on the previous discussion, the pensions are for past services rendered to the government and they should be

classified as "trust fund" payments. As such, they have been removed from the transfer payments category and the "grants" component to non-residents derived.

The "trust fund" type payments were about 0.02 billion (\$21 million) in 1961 and they rose to \$0.3 billion (\$344 million) by 1989. After removing them, the grant element for 1961, was about \$0.06 billion (\$56 million) due to a smaller amount of "trust fund" type payment; but in 1989, the grant element was about \$2.0 billion (Tables 1 and 1A).

4. Transfer Payments to the Business Sector

Transfer payments to the business sector contain subsidies and capital assistance.

By definition, subsidies are grants on "current account by the government to (a) private enterprises and public corporations, or (b) unincorporated public enterprises when clearly intended to compensate for losses resulting from the price policies of government" 15.

In other words, the payment of subsidies to industries is tantamount to sharing the production costs of the industries concerned. There is, however, no direct exchange of goods or

¹⁵United Nations, <u>National Accounts Statistics: Main</u>
<u>Aggregates and Detailed Tables</u> 1986, New York 1986, p. XVI.

services between business and government. The government compensates the business sector for losses resulting from the policies of government in the interest of consumers.

Capital assistance to business is intended to purchase new machinery, equipment and new construction. The business sector receives the funds and incurs a capital outlay for those purposes, and goods or services are not exchanged between business and the government. However, when the capital assistance is given by the government, the net worth of the business establishment receiving the capital assistance increases while that of the government decreases. The increase in the net worth of the business establishment is synonymous to income and should be added on to the profits with a corresponding upward adjustment to the government subsidies.

It can be argued in this case that capital assistance is a subsidy given for capital formation expenditures of the business sector. Here again, the government is sharing the cost of production by the business sector in order to enable the business to reflect the reduction in the operating costs in the price of its product. This is the generally accepted view on the treatment of subsidies for economic analysis. In view of this, the subsidy for capital formation would, by definition, be limited to the amount of subsidy applicable to the depreciation of the capital assets purchased with the grant, because it is only the depreciation that

gets into the price of the product for the given accounting period. Of course, for practical reasons, this method involving the spread of the entire amount of subsidy over the life of the asset would not be easy. It would involve separate accounts by the government statistical agencies for all such capital assistance transactions by type of asset purchased by the business establishments receiving such grants. Those separate accounts should take into account the productive life of each asset involved and spread the cost over a number of years. This is rather impractical and we do not recommend it. We encountered this problem when Statistics Canada developed "net price indices" based on "prices net of subsidies and taxes" for each commodity of the Input-Output Accounts. In this project, the commodity prices should include relevant subsidies but should exclude indirect taxes to obtain a price index net of indirect taxes. Allocating subsidies to relevant commodities was relatively easy. However, developing a complete profile of each and every machinery and equipment or building for apportioning capital assistance over the life of the asset proved to be extremely difficult. Furthermore, this exercise would also involve developing a complete new annual or quarterly accounting of subsidies which would result in different totals from those published in the annual government accounts. In order to overcome these practical difficulties, we are suggesting to treat the entire capital assistance as a subsidy in the period it is given, in which case, both the income accounting by the business establishment concerned and the subsidy accounting by the government's national accountants would be in the same period.

By treating the entire capital assistance as a subsidy, the net effect on the GDP at market prices will be zero as the subsidy entry is a negative item with a corresponding addition to operating surplus; but the GDP at factor cost increases by the rise in the net worth resulting from the capital assistance as shown in the following model.

In this simple model, it is assumed that the Business sector (automobile manufacturer) paid salaries and wages of \$1,000 in an accounting period and sold automobiles worth \$1,500. Let us also assume government gave to the Business sector capital assistance of \$200 and that the Business sector purchased automobiles for that amount. The manufacturer sold the remaining stock of automobiles for \$1,300 to the Personal sector and realized a gain of \$500 (\$1,500 Minus \$1,000 salaries and wages; for simplicity, other inputs are assumed to be zero, because if these inputs are taken into account, they will reflect in the factors of production of the concerned business establishments with a corresponding reduction in the profits of the automobile manufacturer. These adjustments, within the same Business Sector are ignored here for the purpose of simplicity). The business establishment which purchased the automobiles with the capital assistance of \$200 had only capital investment as its transaction and reported "zero" profits as there were no sales. The articulation of these transactions in the GDP accounts is shown in this simple model mainly to reflect the suggested treatment for the capital assistance.

Model
Articulation of Capital Assistance

Income Based GDP		Expenditure Based GDP	
	\$		\$
Salaries	1,000	Personal expenditure	1,300
Profits as calculated by the Business Enterprise	500	Capital formation (automobiles sold to business sector which purchased them from	200
Add: Adjustment for Capital Assistance which increases net worth of		the manufacturer using government capital assistance)	
business	+200		
GDP at factor cost	1,700		
Subsidy	200		
Total GDP	1,500	Total GDP	1,500

At the present time, capital assistance to business establishments is not regarded as subsidies while other transfers to the business sector are treated as subsidies in the National Accounts. This paper suggests consistent treatment for all transfer payments to the business establishments. Such a consistent treatment would eliminate the differences resulting from

variations in grant giving policies in different countries. For example, if country A gives more capital assistance and less subsidies, and if country B gives less capital assistance and more subsidies, both the countries would be compared with their combined totals of capital assistance and subsidies.

5. Interest on the Public Debt

Interest on the public debt is also treated as a transfer payment in the Canadian SNA¹⁶, because national income should not vary simply because of changes in techniques of financing of government expenditure either from taxation or borrowing. This is consistent with Boulding's views in his article on "Puzzles Over Distribution"¹⁷. Here, Boulding writes: "The passive owner of debt... receives an income by virtue of pure ownership without doing anything very much, and the interest then has something of the characteristics of a grant".

The current treatment of interest on the public debt as a transfer or a grant deserves to be reevaluated because this flow can be considered an exchange of services from borrowers to

¹⁶Guide to the Income and Expenditure Accounts, Income and Expenditure Accounts, Sources and Methods Series, Statistics Canada, Ottawa, Catalogue 13-603E, November 1990, p. 33.

¹⁷Kenneth E. Boulding, "Puzzles Over Distribution", <u>Challenge</u>, November - December, 1985, p. 9.

lenders¹⁸. This controversial subject was discussed at length by Goldberg, but no definite conclusion is available at this stage¹⁹. However, some encouraging developments in the recently proposed revisions to the United Nations System of National Accounts provide alternatives to the existing treatment. One proposal assumes "that interest flows consist of two parts, including a service charge and a net interest flow"²⁰. Although there are grounds to treat the item as a combination of service charge and transfer, statistical difficulties will persist for measurement and analysis. Such problems would have to be studied separately. For the moment, we have retained the present treatment of the interest on the public debt as transfer payments.

IV Summary

This paper filtered the items of government transfer payments through the "grants" concept of Grants Economics and retained only items containing grants as defined in Boulding's concepts of Grants

¹⁸ Preetom S. Sunga, "The Treatment Of Interest And Net Rents In The National Accounts Framework," International Association For Research in Income and Wealth, The Review of Income and Wealth, March 1967; and "An Alternative to the Current Treatment of Interest as Transfer in the United Nations and the Canadian System of National Accounts," The Review of Income and Wealth, December 1984.

¹⁹S.A. Goldberg, "The Treatment of Interest in the National Accounts: A Review," International Association For Research in Income and Wealth, Nineteenth General Conference, August 1985, (Mimeographed paper).

²⁰See paper by Vu Viet, on "The Revision of SNA, Input-Output Standards in the SNA Framework", International Association For Research in Income and Wealth, Nineteenth General Conference, August 1985, p. 44, (Mimeographed paper).

Economy. As both "transfer payments" in National Accounts and "grants" of Grants Economics should represent the same, the content of government transfer payments in the System of National Accounts should, by definition, conform to the "grants" concept and any divergences should be reclassified to the categories to which they belong. This has been done in this study, because an analysis of the transfer payments revealed that not all items are grants as defined in the Grants Economics. Payments for pensions and other contributory social security programs such as unemployment insurance are neither transfer payments nor grants because they are coming out of "trust funds" specified for those programs. They are similar to bank withdrawals by the legitimate claimants to the extent of their entitlement -- be it pensions, workers' compensation, or unemployment insurance. These "trust fund" type transactions have been removed from the transfer payments to the personal and non-resident sectors of the economy. The definition of transfer payments in the National Accounts should be changed suitably to fall in line with grants concept of the Grants Economics.

Other items, such as transfer payments to non-profit institutions (e.g. universities) for rendering services to the personal sector have characteristics of quid pro quo, and they qualify to be included in the government sector's outlays, rather than in the personal sector. These, too, have been removed from transfer payments.

The database after these adjustments for reclassification represents the new paradigm. Based on this database, the total government spending was about \$11 billion in 1961 and \$253 billion in 1989 (Table 2). Prior to the reclassification, it was \$12 billion in 1961 and \$286 billion in 1989. The "trust fund" type transactions which have been removed in the new paradigm account for the difference (See Table 1). The proportion of transfer payments to total government spending was about 36% in 1961 before reclassification, and declined to 28% after reclassification. By 1989, this proportion which was 52% before reclassification declined to 41% after reclassification (Table 3).

Also, in the new paradigm, the grants to the personal sector increased only moderately from 4% of GDP in 1961 to 5% in 1989, while government transfers to business sector almost doubled from 1% of GDP in 1961 to 2% in 1989. Interest on the public debt also tripled from 3% of the GDP in 1961 to 9% in 1989 (Table 4).

The treatment of capital assistance as subsidies proposed here is similar to the treatment of other transfers to the business sector. It would eliminate the differences resulting from variations adopted by different countries in grant giving policies and practices.

We hope that this paper on the government transfer payments, which integrated the concepts of National Accounts with those developed by Boulding et al. in the field of Grants Economics, will help researchers and analysts in the difficult task of evaluating the data objectively for policy decisions.

Table 1 Total Government Spending Before and After Adjustments Based on Reclassification of Transfer Payments with adjustments.

	Before A	Before Adjustments		ljustments
	1961	1989	1961	1989
		\$ Millio	ons	
1. Current Expenditures	6,166	121,242	6,166	121,242
2. Adjustments: Add: "indirect quid pro quo"			+308	+13,054
3. Sub-total	6,166	121,242	6,474	134,296
4. Capital	1,674	15,283	1,674	15,283
5. Inventories	8	-3	8	-3
6. Sub-total: Goods & Services	7,848	136,522	8,156	149,576
7. Transfers (a) to persons (i) trust fund type payments (ii) "indirect quid pro quo"	2,724	75,901	2,724 -910 -308	75,901 -32,448 -13,054
(iii) Equals: Adjusted total to persons			1,506	30,399
(b) to business of which: (i) subsidies (ii) capital	370 345	11,602	370 345 25	13,411 ^a 11,003
assistance (c) to non-	25		77	2,340
residents (i) trust fund type payments	77	2,340	-21	
(ii) Equals: Adjusted tota to non-residents	a.ı		56	1,996
8. Interest on public debt	1,184	57,718	1,184	57,718
9. Sub-total: Transfers including interest on the public debt	4,355	149,969	3,116	103,524
10. Total spending	12,203	286,491	11,272	253,100

 $^{^{\}rm a}{\rm An}$ adjustment of \$ - 599 million was made to the published figures for statistical and conceptual consistency.

Table 1A Total Government Spending After Adjustments Based on Reclassification of Transfer Payments.

		After Adjustments			
		<u>1961</u>	\$ Mi	<u>1989</u> 11ions	<u>\$</u>
1.	Current Expenditures	6,166	95.2	121,242	90.3
2.	Adjustments: Add: "indirect quid pro quo"	+308	4.8	+13,054	9.7
3.	Sub-total	6,474	100.0	134,296	100.0
4.	Capital	1,674		15,283	
5.	Inventories	8		- 3	
6.	Sub-total: Goods & Services	8,156		149,576	
7.	Transfers (a) to persons (i) trust fund	2,724	100.0	75,901	100.0
	type payments (ii) "indirect quid	-910	33.4	-32,488	42.8
	pro quo" (iii) Equals: Adjusted	-308	11.3	-13,054	17.2
	total to persons (b) to business	1,506	55.3	30,399	40.0
	of which: (i) subsidies (ii) capital assistance	370 345 25	100.0 93.2 6.8	13,411 ^a 11,003 2,408	100.0 82.0 18.0
	(c) to non-residents (i) trust fund	77	100.0	2,340	100.0
	type payments (ii) Equals: Adjusted total	-21	23.3	-344	14.7
	to non-residents	56	72.7	1,996	85.3
8.	Interest on public debt	1,184		57,718	
9.	Sub-total: Transfers including interest on the public debt	3,116		103,524	
10	. Total spending	11,272		253,100	
11	. Total GDP at market prices	40,886		651,616	

^aAn adjustment of \$ - 599 million was made to the published figures for statistical and conceptual consistency.

Table 2 Total Government Spending Before and After Adjustments
Based on Reclassification of Transfer Payments: Summary

		Before Adjustments		After Adjustments		
		1961	1989	1961	1989	
			\$ Mill:	ions		
Summa	ary					
1. Cu	ırrent	6,166	121,242	6,474	134,296	
2. Ca	apital	1,674	15,283	1,674	15,283	
3. II	nventories	8	-3	8	-3	
	ub total: Goods & Services	7,848	136,522	8,156	149,576	
(8	ransfers: a) to persons b) to business	2,724	75,901	1,506	30,399	
λ)	of which: (i) subsidies (ii) capital	370 345	14,010 11,602	370 345	13,411 ^a 11,003	
	assistance	25	2,408	25	2,408	
((c) to non- residents	77	2,340	56	1,996	
((d) sub-total	3,171	92,251	1,932	45,806	
	nterest on the ublic debt	1,184	57,718	1,184	57,718	
T: i:	ub-total: ransfers ncluding nterest on					
de	he pubic ebt	4,355	149,969	3,116	103,524	
8. To	otal Spending	12,203	286,491	11,272	253,100	
	otal GDP at arket prices	40,886	651,616	40,886	651,616	

 $^{^{\}rm a}{\rm An}$ adjustment of \$ - 599 million was made to the published figures for statistical and conceptual consistency.

Table 3 Total Government Spending Before and After Adjustments
Based on Reclassification of Transfer Payments: Summary
(Percentages)

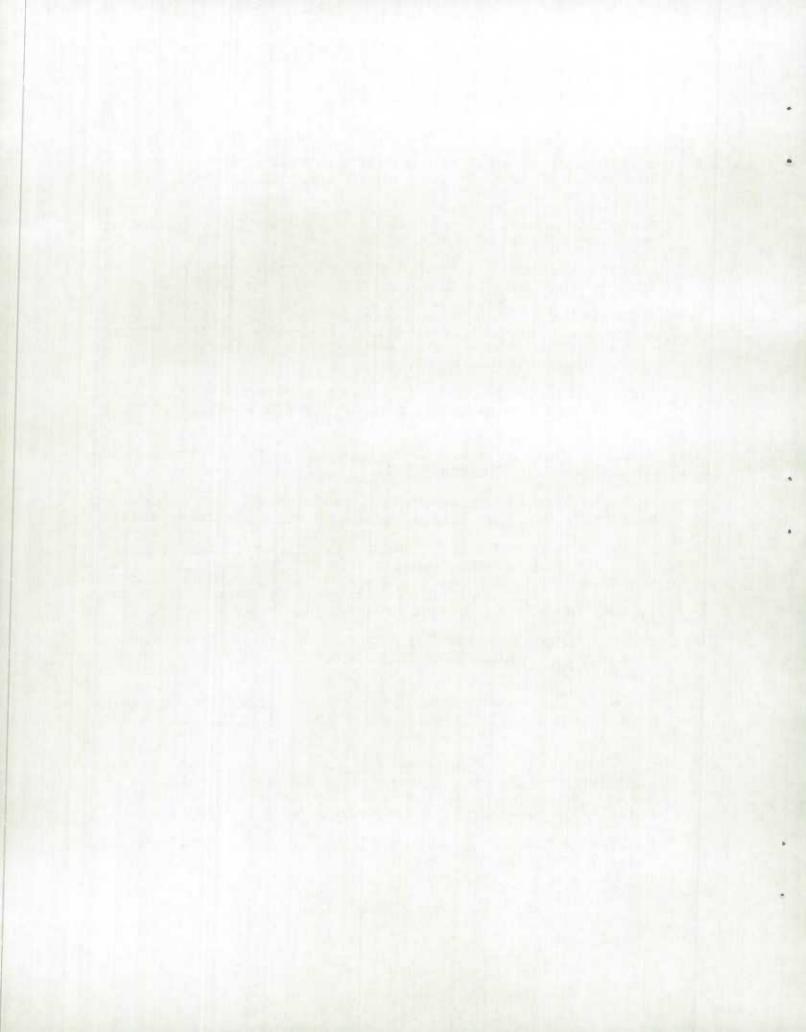
	Before Adjustments		After Adjustment	
	<u> 1961</u>	1989	<u>1961</u>	1989
		* Dis	tribution	
Summary				
1. Current	50.5	42.3	57.4	53.1
2. Capital	13.7	5.3	14.8	6.0
3. Inventories	0.1	-	0.1	
4. Sub-total: Goods & Services	64.3	47.6	72.3	59.1
5. Transfers: (a) to persons (b) to business	22.3	26.5	13.4	12.0
of which: (i) subsidies	3.1 2.9	4.9	3.3 3.1	5.3 4.3
(ii) capital assistance	0.2	0.8	0.2	1.0
<pre>(c) to non- residents (d) sub-total</pre>	0.6 26.0	0.8 32.2	0.5 17.2	0.8 18.1
6. Interest on the public debt	9.7	20.2	10.5	22.8
7. Sub-total: Transfers including interest on the public debt	35.7	52.4	27.7	40.9
8. Total spending	100.0	100.0	100.0	100.0

Table 4 Total Government Spending Before and After Adjustments
Based on Reclassification of Transfer Payments: Summary
(Percentage of GDP)

After Adjustment	
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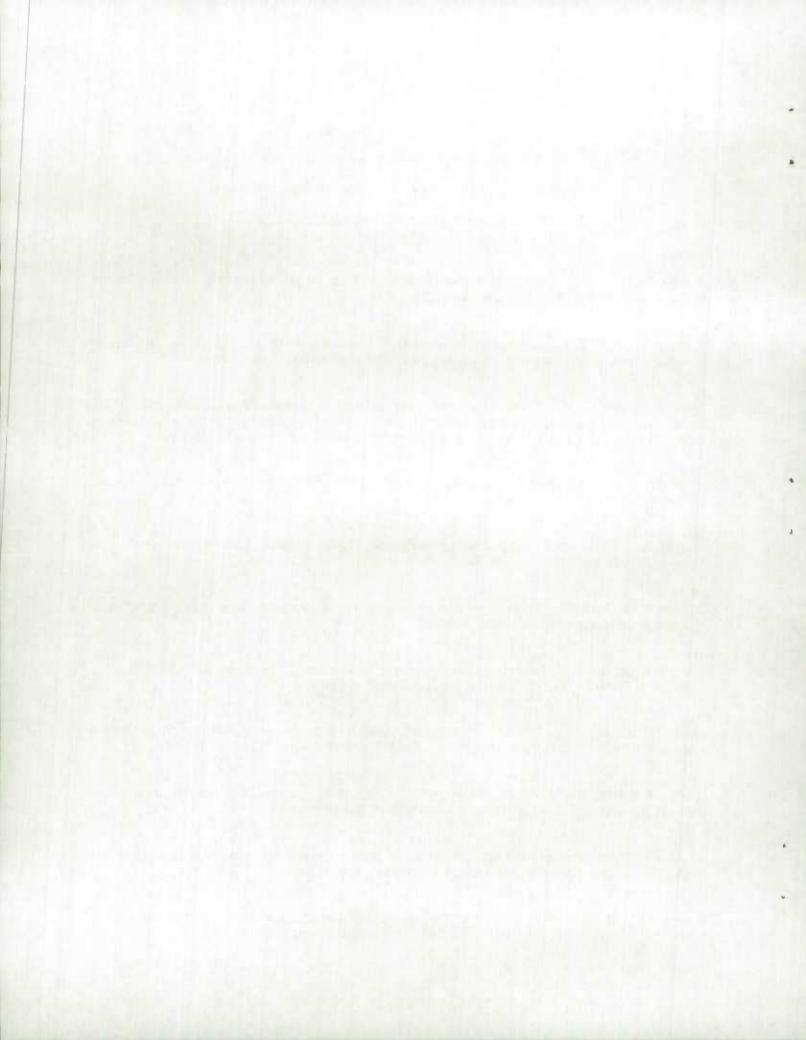


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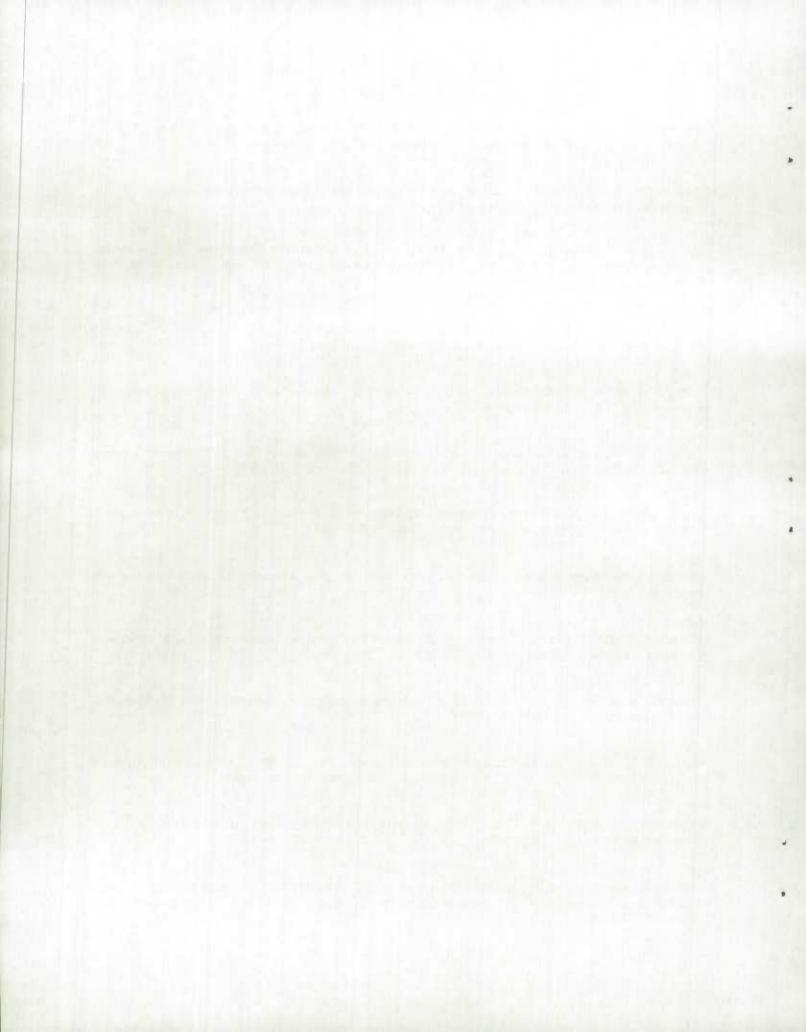
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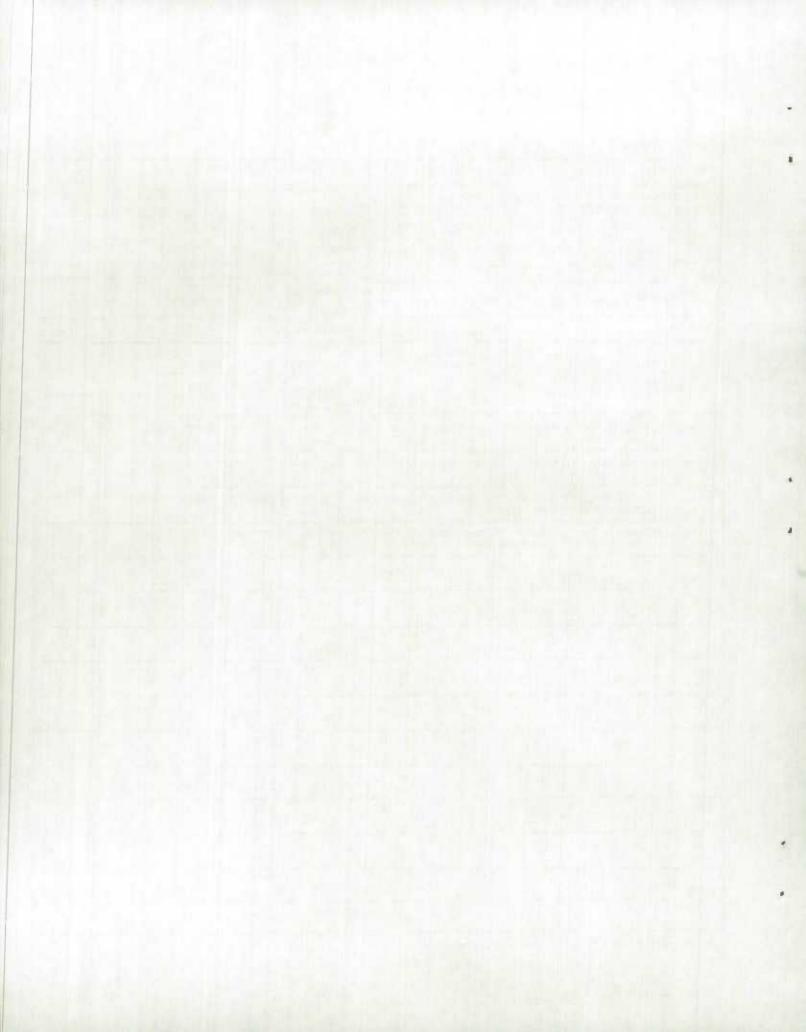
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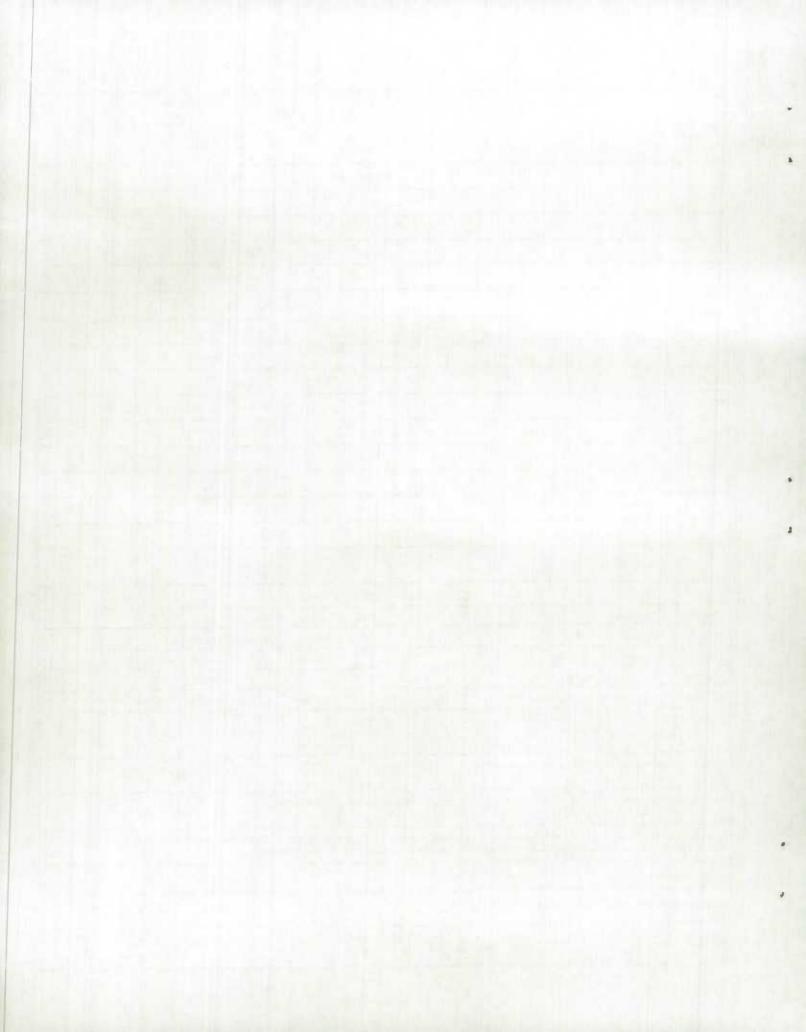


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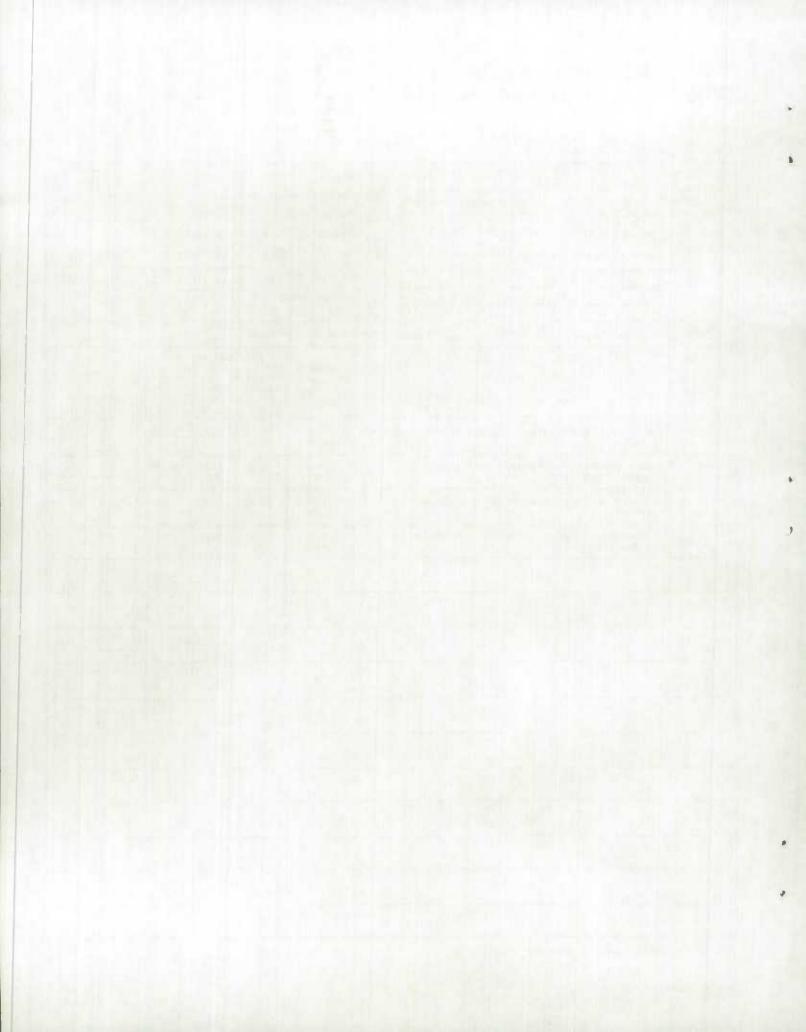
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