



November 5, 2004

Current Guidelines for Identifying Public Sector Control and Economically Significant Prices

This memorandum describes the current guidelines used by the Bureau of Economic Analysis to assign institutional units to the public sector for the U.S. national accounts. As discussed below, BEA prepares national accounts statistics for the public sector primarily using Federal Budget and U.S. Census Bureau *Government Finances* data, adjusted to meet national accounting conventions.

Central government

For the Federal (Central) Government, BEA relies substantially on Federal budget data to prepare national accounts statistics. The 1967 President's Commission on Budget Concepts developed important recommendations on classifying Federal Government institutional units.¹ These recommendations are used by the U.S. Office of Management and Budget to classify institutional units in the budget. The Commission concluded that the coverage of the budget should be comprehensive of the full range of Federal activities; borderline institutional units or transactions should be included unless there are exceptionally persuasive reasons to exclude them. The Commission suggested several questions to be asked when making decisions concerning whether institutional units should be included in the budget. As modified by experience, these questions are: (1) Who owns the unit? (2) Who supplies the unit's capital or other financial resources? (3) Who selects the unit's manager(s)? (4) Do the Congress and the President control the unit's program and budget or bear responsibility only in some broad ultimate sense? (5) Does the unit exercise sovereign powers? The Commission believed that the answer to no one of these questions is conclusive, and each answer is a matter of degree. Decisions on whether to include institutional units in the budget and, thereby, the Federal Government, should be made by a net weighing of as many relevant considerations as possible. Generally speaking, an institutional unit is more governmental and therefore the reason to include it in the budget is stronger to the extent that the answers to questions 1-3 are "the Federal Government," the answer to questions 4 is "Congressional and Presidential control," and the answer to questions 5 is "yes."

The Federal Budget defines public enterprise funds as revolving funds that are authorized by law to conduct business-type activity, primarily with the public, in which the enterprises sell products or services and use the proceeds to finance operating expenses. Public enterprise funds are in the budget, and are included in the public sector. However, the budget does not define "business-type activity" explicitly; the implication is that enterprises cover a substantial portion of their operating costs with sales revenue.

¹ See *Report of the President's Commission on Budget Concepts*, U.S. Government Printing Office, October 1967. Also see Chapter 25, "The Budget System and Concepts," in the *Analytical Perspectives Budget of the United States Government, Fiscal Year 2005* at <http://www.whitehouse.gov/omb/budget/fy2005/>.

In general, BEA adopts the Federal Budget's classification of institutional units when preparing national accounts statistics. However, there are selected cases where BEA deviates from the budget's classifications, and imposes different classifications for institutional units.² In these cases, BEA relies upon *System of National Accounts, 1993* (SNA) guidance when classifying these units. A unique case is the U.S. Federal Reserve System, the nation's financial authority, where the system's Board of Governors is classified in the public sector, while the system of Federal Reserve Banks is classified in the private corporate sector.³

Regional governments

For state and local (regional) governments, BEA relies substantially on Census Bureau data to prepare national accounts statistics. Part 3.12 of the Census Bureau's *Government Finance and Employment Classification Manual* provides a definition for "government":⁴

A government is an organized entity which, in addition to having governmental character, has sufficient discretion in the management of its own affairs to distinguish it as separate from the administrative structure of any other governmental unit.

This definition reflects a requirement that a government entity be autonomous (operating on its own and being separate from other units), which is consistent with the SNA. The Census Bureau manual describes the concept "having governmental character" using references to the methods used to select the entity's officers (popular election or appointment by public officials), performing governmental functions, and requirements for public accountability.

Importantly, Part 3.13 of the manual also discusses entities that are "dependent" on government, and distinguishes between parent governments and sub-governmental units; all three types of entities (dependent, parent, and sub-governmental units) are classified within the public sector. The Census Bureau reflects four categories of governmental activities: General, utility, liquor stores, and insurance trusts. The utilities (water supply, electricity, gas supply, and transit) are classified as commercial-type activities by the Census Bureau.⁵ BEA classifies the utilities plus the following types of institutional units as state and local government enterprises: Liquor stores, air and water terminals, toll facilities, housing and urban renewal, sewerage, and miscellaneous commercial activities (parking facilities, lotteries, off-track betting, and miscellaneous insurance trusts).⁶ BEA classifies these institutional units as government enterprises because they produce goods or services for sale to the public, their sales cover a substantial portion of their operating costs, and because they maintain separate accounts.

²Examples of these cases include retirement programs/funds; the Universal Service Fund; thrift bailout agencies; credit accounts; and deposit funds and foreign currency accounts.

³ The Federal Reserve System is not reflected in the Federal Budget.

⁴ See *Government Finance and Employment Classification Manual*, Chapter 3 – "Framework of Census Statistics on Government" at http://www.census.gov/govs/www/class_ch3.html.

⁵ The Census Bureau does not define "commercial-type."

⁶ The Census Bureau classifies these units in general government.

Notably, BEA classifies health, hospitals, and higher education institutions as part of general government, even though in some cases their sales of services may cover a substantial portion of their operating costs. This aspect of BEA's classification is part of BEA's research agenda.

Please let us know if you have questions.

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BBR:11/05/04