

# THE TREATMENT OF GOVERNMENT INTEREST PAYMENTS AND THE SERVICES OF PUBLIC-OWNED PROPERTY IN THE NATIONAL INCOME ACCOUNTS

FOUR APPROACHES TO THE PROBLEM OF TREATING  
GOVERNMENT INTEREST PAYMENTS

by

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One of the important controversial points in economic accounting is the treatment of government interest payments. In seeking a solution to this problem, four different viewpoints were advanced. The first viewpoint considers all interest payments, either government or private, as mere transfer payments that have nothing to do with current creation of output and income. Consequently, all interest payments ought not be included in national income and national product.

This view is confronted by an opposite one, which considers all interest payments, both governmental and private, to represent a current service rendered by the lender to the borrower, and thus must be considered as a part of the national income and the national product.

In the case of the government, interest payments represent the price of current service rendered to the government or tax payers (depending on whether one is using organismic or individualistic approach to the state); by the holders of the government's bonds who are sacrificing current consumption for future consumption and thus enabling the government and/or the tax-payers to use the monetary value of their debt instead of redeeming it.

A third viewpoint coincides with the latter one in considering interest payments to represent current services, but denies that such services are rendered in case of war financing loans. This view rests on the argument that wars need the use of real resources and real produced goods and services during wartime. Financial borrowing-interest-taxation problems are completely

different and distinct problems; they deal only with the transfers of financial claims between bondholders and taxpayers.

Finally, there is also a fourth view that distinguishes between interest payments — paid by either the public or private sector — on the basis of their use either for consumption or investment. Only interest payments on loans used for the acquisition of productive facilities are to be included in national product and income, while those on loans used for consumption purposes are to be excluded. Accordingly, all interest paid by the business sector — which does not consume — are to be included, while interest paid by the government or the members of the household sector, are to be included only when they represent current use of economic resources. Thus, a part of government interest payments is included in the national product and income when it represents a factor cost that ought to be imputed as remuneration for the real capital currently used in the processes of producing government services.

The following are brief discussions of each viewpoint.

1. *The Complete Exclusion of All Interest Payments :  
The Transfer Payment Approach*

Professor Rolph is known as the advocate of the idea that all interest payments are transfer payments.

It is here proposed to treat all interest payments whether by government or by private groups as transfer payments. .... Interest in our sense relates solely to payments in connection with debt contracts. (1)

The viewpoint that there is a service rendered by the lender to the borrower, by allowing the latter to use the former's money, is rejected by Rolph on the grounds that lending and borrowing is a capital not an income transaction. "One asset, cash, is exchanged for another asset, a promise to pay." (2) Rolph, considering government interest payments as contractual transfer payments, trying to back his argument, asserts that :

In accounting theory, certain schools of thought have long urged that contractual interest be viewed as a distribution item, rather than as a cost of production. (3)

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(1) Rolph, Earl R., *The Theory Of Fiscal Economics*, Berkley : University Of California Press, 1954 P. 60.

(2) *Ibid.*, P. 65.

(3) *Ibid.*, P. 66.

Apparently there is confusion in Rolph's understanding of the accounting theory. To this writer's knowledge, as an accountant, there is no theory that considers all contractual interest as a distribution of income. It is well recognized in accounting theory that "the interest that a business is obliged to pay is an expense and is called interest expense." (1) The only contractual interest which is viewed in accounting as a distribution item is that on partnership capital investments. Even here it is an accounting device to distribute net profit between partners and does not mean in any sense that such interest payments — from the national income viewpoint — as transfer payments. (2)

Aside from this accounting pitfall, Rolph's view is not wholly satisfactory. His attack on the use-of-money argument, that "one asset, cash, is exchanged for another asset, a promise to pay" is unacceptable, because if such justification is accepted, other income items such as rents will also be subject to exclusion from national income for the same reasoning "one asset, building is exchanged for another, a promise to pay (rent)."

The fact is, as in the case of rent, that there is a service called housing rendered; also in the case of interest, there is a service called use-of-money which is rendered. The argument that housing is a real service and the use-of-money is a financial service — which is not said explicitly by Rolph — leads to another problem that will be discussed later.

## 2. *The Inclusion of the Part of Interest Payments that Represents Currently Produced Services: The Welfare Approach*

Many national income statisticians, following the great welfare economist, A.C. Pigou, consider government interest payments on debt raised for financing war expenditures as transfer payments. Using Gilbert's words:

Following Pigou, government interest is considered a transfer payment, it being argued that no current service is involved since the debt arose largely from past wars.

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(1) Noble, Howard and Niswonger, Rollin. *Accounting Principles*, Cincinnati: South-Western Publishing Co. 1957, P. 178.

(2) The writer cannot help but wonder whether Professor Rolph considers the returns on the partner's labor as transfer payments, because it is considered in accounting theory as a distribution item. It is not the writer's belief that he would.

(3) Gilbert, "United States National Income Studies," *Economic Journal* (April 1943), p. 81.

It is the general contention of the British economists that a division between productive and unproductive assets is desirable. Clark, for example, rules out government interest payments on war debts, but includes those on debts used for productive purposes as a part of national income. (1)

Also Richard Stone states :

As regards debt interest, the position seems to be this. In so far as debt interest is being paid in respect of money used to set up productive capital it should appear in the value of the current output of this capital. (2)

This view has dominated the official estimates of Great Britain, Canada and the United States. The British official estimates considered war debt as unproductive, and thus it excludes interest payments by the central government, as transfer payment, on the basis that the bulk of the central government debt is raised and used for financing war expenditures and hence these interest payments do not reflect a service of currently existing assets. However, interest payments on local government debts are considered in the British White Papers as a part of national income as they are assumed to be used for productive purposes.

In Canada, the same approach is used :

An investigation has been made to determine the use of public authority debt. The interest on that part which has been incurred to finance existing real assets, which is wartime includes war plants is included in the national income while the rest is treated as a transfer payment. (3)

In the United States, the long accepted viewpoint that interest payments are in return for the use-of-money service, was replaced in 1947 by the idea that "the bulk of government debt was created to finance wars and current expenditures... and that interest on such debts does not represent currently produced goods and services or current use of economic resources." (4) This exclusion is not confined to the interest on federal debt but interest on state and local governments' debt are also excluded.

(1) Clark, Colin, *National Income and Outly*. London : Macmillan Co. 1937, p. 10.

(2) Richard Stone, "Two Studies on Income and Expenditures in the United States," *Economic Journal* (April, 1943), p. 62.

(3) Richard Stone, "The Measurement of National Income and Expenditure : A Review of the Official Estimates of Five Countries," *Economic Journal* (September, 1947), p. 280.

(4) U.S. Department of Commerce, "National Income and Product Statistics of the United States 1929-46," *Survey of Current Business*, Supplement, July 1947, p. 11.

It is worth mentioning that this revision of the Department of Commerce view was a result of the "Tripartite Discussions" between representatives from the United Kingdom, Canada and the United States, held in Washington during September, 1944. As a result of these meetings an agreement was reached concerning the treatment of government interest payments. Denison reports on these discussions as follows:

Interest paid on national debt will be classified as a transfer payment. .... This decision, reached only after long discussion, is based on the contention that it receives no service in return for its payment of interests.

Denison adds:

Interest paid on the debt of government units other than the national government will be included in national income and net and gross national product in the United Kingdom and the United States. The rationale of this decision was not made entirely clear but presumably it is assumed that the magnitude of the debt units bears a fairly close relation to the value of their physical assets, so that interest paid serves as a partial offset to the non-imputation of a return on government property. (1)

However, the interest on state and local debt has never been included in the estimates published by the U.S. Department of Commerce since 1947. Neither has a justification of such omission been given. The report of the Subcommittee on Economic Statistics in 1957 clearly states that "the assimilation of government interest to transfers thus rests exclusively on the argument developed with respect to the war debt." (2) The Subcommittee observed that "the state and local debt — approaching \$ 50 billion — involves estimated annual interest payment of more than \$ 1 billion, to which the war debt argument does not apply." (3) The report adds

The Committee recommends, therefore, that in the future the interest on State and local debt be treated as a part of the income and product totals on the assumption that they reflect the continuing contribution to the producing of assets financed by the issue of these loans. (4)

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(1) Edward F. Denison, "Proposed Changes in the Measurement of National Product by the Department of Commerce, Report on Tripartite Discussions of National Income Measurement," *Studies in Income and Wealth*, Vol. X (New York: The National Bureau of Income Research, 1947), p. 9-10.

(2) U.S. Congress, Joint Economic Committee, Subcommittee on Economic Statistics, *The National Economic Accounts of the United States* (Washington: U.S. Government Printing Office, 1957), p. 176.

(3) *Ibid.*, p. 178.

(4) *Ibid.*

However, this recommendation has not been implemented, although Mr. Charles F. Schwartz in his capacity as Assistant Director of the Office of Business Economics, assured the committee that "the two output measures would be changed only to a minor extent, principally by the inclusion of interest paid on the debt of state and local governments. . . ." (1)

However, apart from the inclusion of state and local interest payments, according to Denison, the war debt argument is based on the point:

...that the privilege of not paying off the national debt cannot legitimately be considered a product; or viewing the problem from the income side, that the funds lent to the national government are not used "in production." (2)

These two reasons are not acceptable. To rule out the idea that interest payment is associated with a service rendered by the lenders is refuted by a *reductio ad absurdum*, for it may be extended to the exclusion of interest payments on consumption debts, (3) which is not consistent with contemporary interest theory. Also, to say "that the funds lent to the national government are not used 'in production'" is rejected as all government services including defense have already been considered as a part of final national product and that the government is the producer of these services. To say anything else would run against the practical inclusion of government services in the official estimates of the national product and income in the three countries.

### 3. *The Inclusion of the Part of Interest Payments that Represents the Services of Productive Facilities: The Productivity Approach.*

Many writers advocate the separation of productive from non-productive uses of government debt. The views of Colin Clark and Richard Stone who advocate such an approach have been mentioned before. Here also can be added that Morris A. Copeland, Gerhard Colm and Ingvar Ohlsson all believe that the contribution of public-owned assets should be included in the national income; otherwise their omission leaves a very substantial item unaccounted for.

(1) *Ibid.*, p. 76.

(2) Denison, *op. cit.*, p. 9.

(3) It is the practice in both Canada and Norway to exclude interest on consumer debt. See United Nations, *Methods of National Income Estimation*, 1955, p. 21.

The inclusion of a value for the services of government-owned assets such as roads, hospitals and school buildings, canals and dams and similar publicly owned assets, would require an estimation of the capital value of these assets on which an interest to be imputed and to be included in the estimate of the national income and national product as a value of the services of these assets. Early in 1937, Professor Copeland suggested the use of imputation for the services of government-owned property because

In the writer's opinion property income derived from government should, for purpose of estimating the social net value product be put on an imputed basis (e.g., a constant rate of return should be applied to the estimated value of the tangible wealth owned by the Government). (1)

The possibility of such imputation in the official estimates of the United States, United Kingdom and Canada was ruled out in the "Tripartite Discussions" of 1944, "because some participant, who considers such imputation desirable, believed it statistically impossible to prepare an acceptable estimate." (2) This argument was repeated by the U.S. Department of Commerce in its official estimates. (3)

However, Stone considers the inclusion of a portion of the interest paid on public debt in the national income is better than ignoring the problem and classifying all public debt as a consumption debt. (4) This proposal is believed by Colm to be a misrepresentation of "the role of government in modern economic life and (its) important contribution to the national product." (5) Colm while recommending the inclusion of all interest payments on state and local debt "in national income because they reflect at least to some extent the use of public capital assets," agrees with Copeland and Ohlsson on the use of a direct approach that requires "a comprehensive survey of public capital assets, their

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(1) Morris A. Copeland, "Concepts of National Income," *Studies in Income and Wealth*, Vol. I (New York : The National Bureau of Economic Research, 1937), p. 28.

(2) Denison, *op. cit.* p. 10.

(3) U.S. Department of Commerce, "*National Income, 1954*" p. 54.

(4) Richard Stone, "Definition and Measurement of the National Income and Related Totals," Appendix to *Measurement of National Income and the Construction of Social Accounts* (New York : United Nations, 1947, p. 72.

(5) Gerhard Colm, "The Government Sector : A Re-examination of Controversial Issues," *Studies in Income and Wealth*, Vol. XX (New York : The National Bureau of Economic Research, 1957), p. 119.

valuation and depreciation." (1) However, Stone's viewpoint was repeated in the report of the U.S. Subcommittee on Economic Statistics published in 1957.

A final solution consistent with the treatment of interest in the private sector would include that part of Federal interest payments which could be regarded as reflecting the services of Federal assets; and an imputed interest payment for those state and local assets on the basis of the interest rate actually paid for the assets which have been financed by borrowing." (2)

The author of this paper objects to such an indirect method for measuring the services of government-owned property and productive facilities. The services of these assets can only be estimated through their depreciation which represent their actual "wear and tear" and not through imputed yield, a portion of public debt service or a part of "Federal" interest payments.

Another unacceptable solution is the one advanced by the Netherlands in its national income estimates for 1938, where it was assumed that "total redemption of Government loans.... roughly equal depreciation allowances on this property" (3); on the basis that "total Government property equalled total Government debt outstanding." (4) This assumption is not sufficient and the practice is not justified unless it is also assumed — as Derksen observed — "the average expectancy of the life of these capital goods equals the average duration of the loans." (5)

These suggestions and solutions are in fact a result of the confusion between the real and the financial sides of the problem, which are completely different things. On the real side, there are the services of the government-owned assets reflected in their "wear and tear" to which "depreciation" is the accounting device for its estimation and its future replenishment. On the financial side, there is the use-of-money service for which a price called "interest" is paid. It seems to this author that to escape the controversial problem of exclusion or inclusion of government interest payments, many writers suggest that these payments, or

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(1) *Ibid.*, p. 118.

(2) U.S. Congress, Joint Economic Committee, *op. cit.*, p. 178.

(3) J. B. D. Derksen, *A System of National Book-keeping Illustrated by the Experience of the Netherlands Economy*, Occasional Paper X, National Institute of Economic and Social Research (New York : Cambridge University Press, 1946), p. 13.

(4) *Ibid.*, p. 16.

(5) *Ibid.*, p. 20.

the redemption of the public debt, can be taken as a measure of the services of government-owned assets. In this writer's opinion, this is unacceptable confusion.

A realistic approach would ask for an estimation of government-owned assets' depreciation, and if this is not possible, an imputation may be made. Denison's report on "The Tripartite Discussions" clearly states :

Depreciation on government property can enter gross national product accounts only if it is specifically estimated and added to government expenditures. (1)

The difficulty of such an estimation is usually a result of accounting difficulties stemming from the fact that government accounts are designed primarily for "accountability" use, and thus a distinction of government expenditures on capital accounts is deemed by many countries as unnecessary.

However, this viewpoint is no longer acceptable as a result of the increasing importance of national income estimates in economic analysis and decision making. Thus, as Ohlsson puts it :

It seems appropriate to treat the production capital which is used in the GS (Pure Government Sector) as active. .... Although such imputation of a depreciation item for the GS becomes arbitrary, it is in theory no more arbitrary than estimates of depreciation for business production capital other than accounting values. (2)

Ohlsson believes that "the arbitrariness introduced in this way is not a priori greater than that involved in the use of only the realized costs." (3)

However, it must be clear that the inclusion of the value of the services rendered by government assets cannot be considered a substitute for interest payments on government debt, which must be included also as the price for the use-of-money service rendered by the lender to the government and/or the taxpayers. The use of the borrowed money on the part of government for productive or unproductive use deals with the real side of the problem, not the financial side, and thus has nothing to do with the fact that a financial service from the lender to the borrower has taken place and must be accounted for in national income and national product estimation.

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(1) Denison, *op. cit.*, pp. 11-12.

(2) Ingvar Ohlsson, *On National Accounting* (Stockholm : Konjunktursturinstitutet, 1953), pp. 185-86.

(3) *Ibid.*, p. 100.

#### 4. *The Inclusion of All Interest Payments : The Financial Approach*

Early estimates of national income such as those of Streightoff (1) and King, (2) considered government interest payments as a price of a service that must be included in national income totals. It was only during World War I that the opposite idea that these payments, at least on war debt, should be treated as transfers, was advanced.

It was argued that the inclusion of interest on the war debt as a part of national income would lead to absurd results. Could one say that a country becomes poorer by avoiding or redeeming a war debt by high taxation or wiping out a war debt by inflation, repudiation, or currency reform ? Or could one say that a country becomes richer if it raises the interest rate on all war bonds ? (3)

However, no attention was paid to such an argument in the compilation of national income up to the outbreak of World War II. During the inter-war period, national income estimates in almost every country that undertook these estimations, considered interest payments on government debt as a part of individual incomes. This was the case in the United States, when the National Bureau of Economic Research and the U.S. Department of Commerce up to 1947 included all government interest payments in national income totals, on the ground that the lenders are rendering a service to the government and the taxpayers for which they are paid an interest. Using the words of the National Bureau of Economic Research,

...the advantage to taxpayers of being allowed to postpone the time of payment was evidently felt to be real enough to make them willing to pay money for the privilege. Furthermore, if the taxpayers feel that the privilege of postponing the assumption of their respective shares of the burden is not worth the interest charge, they always have the option of paying off the debt. (4)

Also, Gilbert, speaking on behalf of the U.S. Department of Commerce and defending its practice of including all government services, said :

(1) Frank H. Streightoff, *The Distribution of Wealth in the United States* (New York : Columbia University, 1912), p. 44.

(2) Willford Ishell King, *The Wealth and Income of the People of the United States* (New York : Macmillan Co., 1915), p. 129.

(3) U.S. Congress, Joint Economic Committee, *The National Economic Account of the United States*, p. 176.

(4) National Bureau of Economic Research, *Income in the United States*, 1922, 11, 13.

Following Pigou, Government interest is considered a transfer payment, it being argued that no current service is involved, since the debt arose largely from past wars. The origin of the debt, however, seems to me to be wholly irrelevant. Interest is paid in the current year because the community considered it more convenient to do so than to pay off the debt. By giving the Government the use of his money for the current year, the bondholder renders a service. That service should be counted in the national product, and the income derived from rendering it counted in the national income. (1)

The opposite view dominated the British thinking. Professor Bowley, in 1922, considered interest on war debt as transfer payments. (2) Two years later, joint with Sir Josiah Stamp, Bowley asserted that the inclusion of such interest payments results in double counting as they are already considered a part of the incomes of the taxpayers which are included in the national income before taxes. (3)

Also, Keynes considered "interest on national debt, pensions and unemployment relief, etc.," as transfer incomes which are not in exchange for current services rendered, thus their inclusion results in a "taxable income larger than national output." (4)

These views were reflected in the official estimates of the British national income. The British White Papers exclude national debt interest as transfer payments. (5)

Both the British and the American national income statisticians were faithful to their own views up until September, 1944, when the "Tripartite Discussions" were held in Washington between representatives from Great Britain, Canada and the United States. The result was an agreement on the exclusion of interest payments on national debt which were considered as transfer payment, and the inclusion of the interest payments on "the debt of government units other than the national government" on the assumption that it "bears a fairly close relation to the value of their physical assets." (6)

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(1) Gilbert, "U.S. National Income Statistics," *Economic Journal* (April, 1943), p. 81.

(2) Arthur L. Bowley, "Definition of National Income," *Economic Journal* (March, 1922), pp. 5-6.

(3) Arthur L. Bowley and Sir Josiah Stamp, *The National Income* (Oxford: The Clarendon Press, 1924), p. 127.

(4) J. M. Keynes, "The Concept of National Income: A Supplementary Note," *Economic Journal* (March, 1940), p. 61.

(5) United Kingdom Treasury and Central Statistical Office, *Sources of War Finance and Estimate of the National Income and Expenditure in 1938 and 1940* (London: H. M. Stationary Office, 1941).

(6) Denison, *op. cit.*, pp. 9-10.

However, the official estimates in the United States since 1947 exclude both interest payments on federal debt as well as on state and local debts, on the ground that "the bulk of government debt was created to finance wars and current expenditures... and that interest on such debts does not represent currently produced goods and services or the current use of economic resources." (1)

This new approach was criticized by Professor Kuznets, who used the forsaken view in "National Income 1929-1932" and "National Income and Its Composition 1918-1938" wherein he included all interest payments on government without distinguishing between the different uses of borrowed money whether it is for productive or consumption purposes. Kuznets' criticism is directed to the base on which the new view is founded. He wonders :

But does any other income payment necessarily represent current use of economic resources or currently produced goods and services in the sense meant in [Department of Commerce] the report ? If a corporation pays interest on its bonds, are we sure that such payment reflects current use of any given complex of capital goods or current production ? Corporation have paid interest in years when they have been completely inactive—the total net product of the corporation was zero and the interest payments were algebraically offset by net losses. (2)

Gilbert, Jaszi and others, defending the new position of the Department of Commerce, reply:

We exclude government interest ... because ... it is not appropriate to assume that there is any current production corresponding to its payment or that it is analogous to the earnings of real resources which are scarce from the standpoint of the nation as a whole. (3)

They also rejected the analogy with corporate interest "since no meaningful profit or loss can be calculated to offset the interest in a manner analogous to the corporate case." (4)

The author of this paper considers these two defenses unacceptable. First, to argue that interest payments on government debt do not represent an "earning of real resources which are

(1) U.S. Department of Commerce, "National Income and Product Statistics of the United States, 1929-46," *Survey of Current Business*, Supplement, July, 1947, p. 11.

(2) Simon Kuznets, "National Income : A New Version," *Review of Economics and Statistics* (August, 1948), p. 159.

(3) Milton Gilbert et al., "Objectives of National Income Measurement : A Reply to Professor Kuznet," *Review of Economics and Statistics* (August, 1948), p. 192.

(4) *Ibid.*, p. 193.

scarce from the standpoint of the nation as a whole," is a misrepresentation of the way the modern economic system functions where monetary and debt management as well as fiscal policies are indispensable. Government interest is a part of the cost of carrying out monetary and debt policies, and therefore must be included in the cost of government produced services, unless one follows Adam Smith's material production concept, both of which are not accepted by the U.S. Department of Commerce.

It is noteworthy that the exclusion of government interest payments on the ground that they represent intangible service was once criticized by Gilbert (also on behalf of the Department of Commerce) who said :

To put the Government bondholder in the same category as (for example) the dole received when all other interest payments are included in factor income seems to me either ultra-sophisticated or absurd. It is not consistent with contemporary interest theory, and is reminiscent of the notion that a service is non-existent because it is intangible. If one questions the existence of a service equivalent to Government debt interest, one must also be suspect of interest on consumer debt which is, of course, included in factor income and in national product. (1)

Second, the analogy with corporate interest paid in years when the corporation are inactive, advanced by Kuznets and the Gilbert answer, are irrelevant to the problem. This discussion deals with the real side not the financial side of the problem. The latter is the present concern as we are dealing with the interest as a remuneration for the financial service rendered by lenders to borrowers and not with a measure of the yield on real capital used in production as a factor input. Interest payment has nothing to do with the uses of the borrowed funds whether it is productive or not. The British concept which distinguishes between productive and unproductive uses of national debt as a basis for the exclusion or inclusion of government interest payment represents a confusion between the two sides of the problem — the real side and the financial side.

This confusion had led Lindahl, Dahlgren and Kock to argue that the inclusion of interest on public debt in the national income is

...refuted by a reduction ad absurdum, for it may be applied with as much force to the inclusion in national income of interest on loans invested in

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(1) Milton Gilbert, "U.S. National Income and Statistics," *Economic Journal* (April, 1943), pp. 81-82.

plant actually in use, although the yield of the plant has already been taken into account. (1)

Rolph was aware of such confusion when he referred to

...the use of interest payments as a device for measuring the net value of government wealth does not mean that such payments are non-transfer and other transfers. It means only that the investigator has decided to take a portion of interest payments as a short cut device to estimate the services of government-owned wealth. (2)

The author would like to point out that the financial side cannot be taken as representative of the real side simply because the outstanding public debt need not be equivalent to the value of existing government assets, and that the rate of interest on this debt need not be equal to the marginal yield on real assets.

Ohlsson asserts that the inclusion of interest on all loans because it is combined with a service would lead to an absurd result. This may happen for "if borrowing for purpose of consumption increased this would, according to this way of looking at the matter, increase the value of the national product. This seems rather absurd." (3)

Aside from the repeated argument that a use-of-money service is existent and ought to be accounted for, increased debt in a modern economic system, as pointed out by Professor Robinson's words: "Rising debt, in other words, is the handmaiden of prosperity and the lack of growing debt is the hallmark of stagnation." (4)

Finally, the "new" view concerning public debt as a set of financial claims, and the interest on this debt as an "internal transfer" between citizens, cannot be taken to mean that this interest must be excluded in computing national income. The whole new argument about national debt is concerned with the burden of debt and has nothing to do with the exclusion of the interest on national income. On the contrary, the new view argues

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(1) Lindahl, Dahlgren and Kock, *The National Income of Sweden, 1861-1930*, note 1, p. 9.

(2) Earl R. Rolph, "The Concept of Transfers in National Income Estimates," *Quarterly Journal of Economics* (1948), p. 342.

(3) Ohlsson, *op. cit.*, pp. 160-61.

(4) Marshall A. Robinson, "Debt and Economic Growth," *National Tax Association*, 1959, p. 20.

that "there is always enough taxable income to service the debt since the interest on debt is itself taxable income." (1)

The present conclusion is that interest payments are in return for a financial service which, like any service, must be included in the national product, and its price — interest paid — must be included in national income, as long as one does not live in an interest free economy as that visualized by Sir Roy Harrod. (2)

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(1) Thoma F. Dernburg and Duncan M. McDougall, *Macro-Economics* (New York : McGraw-Hill Book Co., 1960), p. 244.

(2) Sir Roy Harrod, *Towards a Dynamic Economics* (London : Macmillan Co., 1948), p. 156.