Some Problems in the Construction of a Balance of Payments for an Intranational Region

Vance Q. Alvis

University of Arkansas, Fayetteville

Follow this and additional works at: http://scholarworks.uark.edu/jaas

Part of the International Economics Commons, and the Regional Economics Commons

Recommended Citation

Available at: http://scholarworks.uark.edu/jaas/vol5/iss1/18

This article is available for use under the Creative Commons license: Attribution-NoDerivatives 4.0 International (CC BY-ND 4.0). Users are able to read, download, copy, print, distribute, search, link to the full texts of these articles, or use them for any other lawful purpose, without asking prior permission from the publisher or the author.

This Article is brought to you for free and open access by ScholarWorks@UARK. It has been accepted for inclusion in Journal of the Arkansas Academy of Science by an authorized editor of ScholarWorks@UARK. For more information, please contact scholar@uark.edu, ccmiddle@uark.edu.
SOME PROBLEMS IN THE CONSTRUCTION OF A BALANCE OF PAYMENTS
FOR AN INTRANATIONAL REGION*

VANGE Q. ALVIS
University of Arkansas

Historically, economic writings and thought have been concerned, in their spatial aspects, largely with national states as the unit for study. During the period in which economics is usually thought of as becoming a distinct discipline, interest was centered around the relationships between nations, and nations were dealt with as economically homogeneous entities. Commercial and financial contacts with other nations were usually treated as being either benefical or harmful to the national political unit, and all parts of the nation were helped or hindered simultaneously and in the same direction by any given economic phenomenon. That various geographic segments of the larger whole might react in a markedly different manner to a given stimulus was not treated as being of particular interest or importance.

Although a large body of writings grew up around the topic of international trade at an early date and has continued to expand to the present, it is only in comparatively recent times that there has occurred within the field of economics a widespread interest in the interregional relationships of small areas contained within a single national political entity. Exceptions to this generalization are few, and these few are pretty largely not the work of English-speaking writers. This does not mean to imply that the principles of international and interregional economic relationships exist in unrelated and unconnected compartments. Much, if not all, of the body of analysis applicable to one of these fields is applicable to the other. The difference between the two situations stems largely from the more intimate and informal nature of the contacts in the case of intranational regions as well as a tendency toward less diversity within a small region—principally a difference of degree.

In attempts to understand and explain international and interregional economic relationships, the process of deduction has been employed quite generally. A great quantity of rigorously consistent analysis exists in the field of international economic relationships. Much statistical material has been compiled in this field also, but it is generally better suited for descriptive purposes than for the demonstration of causal relationships. Attempts to employ empirical material to substantiate deductive conclusions have been relatively infrequent in international economics. And of still less frequent occurrence are empirical studies of economic relationships between regions located within a single political boundary. The studies of this latter type which have been made have centered largely in the investigation of a specialized problem or comparison of static quantities, rather than in the establishment of the functional structure of interregional relationships. Only recently have there been concerted efforts to carry through such studies, and the existing studies of this type leave something to be desired in both completeness and comprehensiveness. The empirical data concerned with international economic phenomena are inadequate for many purposes, but material directly relevant to interregional phenomena of small areas is largely non-existent. Attempts to analyze such data as do exist are


Published by Arkansas Academy of Science, 1952

103
valuable not only because they help fill in, however imperfectly, complete gaps in knowledge, but also because they point out the nature of the additional information necessary in order to fill up the gaps completely.

The spatial entities considered in a study of international economic relationships are predetermined on political grounds. In the matter of interregional relationships, the units dealt with may be variously defined. The obvious procedure is to choose regions which, from some viewpoint, contain comparatively little economic diversification. While on the surface this may appear to be an easy solution, such a generalization has solved very little if any of the practical problems involved. The question immediately arises as to the aspects in which uniformity is to be sought. It may be on the basis of the pattern of trade relationships within the area, either at the wholesale or retail level, the nature of products exported to or imported from other regions, the structure of total production and employment, the pattern of money flows, etc. Of course, if availability of data were complete, the spatial units chosen in any single instance would depend primarily upon the objective of the study. Areas of varying composition from the peculiar point of view of the problem at hand would be selected as the most appropriate units to treat. But in light of the present state of statistical information applicable to small intranational regions, it is of questionable value to pursue further a delineation of the ideal method of approach. At the moment, it is necessary to temper the abstract ideal with expediency.

Statistical data concerned with intranational economics, as in the case of international economics, are compartmentalized almost wholly along the lines of political divisions. Thus it becomes necessary, if existing statistical data are to be used, to consider political units as economic units and this practice is followed here. Once this compromise with strictly rational procedure is made, there remains to be decided the political division to be used as an economic unit. The smaller the political division chosen, the smaller in general is the quantity of available data; but the smaller the area involved, the more likely it is to have some semblance of internal consistency. On the basis of data availability alone, an area made up of several states would appear to be the logical entity with which to deal. Yet certain phenomena can be meaningfully treated only as they apply to more restricted areas, and consideration of somewhat smaller units is a first step in the direction of using strictly homogeneous areas as economic units for investigation. With the various limitations in mind, the state was chosen as the economic entity for consideration. 5

Methodology.

Several methods of procedure might be employed in studying a specific region. The one most frequently used, and the one which probably offers as few difficulties as any, is that involving comparison of the region of particular interest with other regions having similar characteristics. The extent to which this line of approach, unsupplemented by additional investigation, can offer an understanding of functional relationships between regions, appears to be sharply limited. However, as a point of departure for further examination, it would seem to have its place. 5

For the purpose of establishing functional interrelations of regions, something in addition to a comparison of their compositions, as they exist at one or at various times, is required. Since forces operating between regions affect the internal economic structure of these regions, determination of the nature and magnitude of such forces is required to identify the causative factors operating within a given area. A direct attempt to identify and establish the mag-


CONSTRUCTION OF A BALANCE OF PAYMENTS

105

magnitude of these elements, within the limits imposed by existing data, seems to offer hope of some concrete results. An evaluation of interregional forces requires an examination of the entire pattern of flow of money claims into and from the region, and the goods and service transactions which give rise to the transfers of claims. One method of attacking the problem is to draw up a balance of payments for the small area comparable to an international balance of payments for a nation. Another would be to study the adjustment of the local economy to changing conditions, as evidenced by changes within the banking system. The ultimate goal of this type of study is to construct a regional balance of payments which contains no unfilled gaps so that all money claims moving across the region’s boundaries can be accounted for and explained. The movement of balances through the banking system would result as a consequence of the magnitudes of the various items in the balance of payments.

Attainment of this ultimate goal for any state within the United States is a long-range project. The lack of pertinent data at the present time limits sharply the extent to which a complete account of the exchange of money claims is possible. Although a certain quantity of statistical data germane to the immediate purpose is available, there are many serious deficiencies which can be remedied only by means of extensive and costly collection of primary data. The immediate results, however, must be considered in light of the anticipated realization of this ultimate goal of completeness.

Components of a Balance of Payments

Commodities move into and from the state by means of railways, roads, waterways, pipe lines, electric transmission lines, and airlines. To assess the magnitude of the effect of these commodity movements upon money flows, it is necessary first of all to determine the physical volume of the goods involved during a given interval of time. Once the physical volume is fixed, prices per unit must be applied to each commodity individually. Since we are concerned with the flow of money claims into and from a state as a consequence of the commodity movements, it is necessary to value outgoing goods at the price received by state residents, and incoming goods at prices paid by state residents. The former prices frequently exclude much of the transportation cost of the commodities while the latter prices include most of the transportation costs. This distinction arises from the fact that Arkansas sellers of goods are paid only the price as of their places of business, while buyers in Arkansas must usually pay the factory or primary market price plus costs of transportation to their places of business. In order to determine accurately the inflow and outflow of funds on commodity account, it is necessary to use two sets of prices, one applying to commodities bought outside the state by local residents and the other applying to commodities sold outside the state by local residents.

Besides the commodity trade account, funds are transferred as a consequence of purchases and sales of services across state boundaries. For example, the region’s residents pay premiums to insurance companies located outside the state, and the companies make claims payments to beneficiaries who are residents of the state. Also, to a much less extent, non-residents make premium payments to local insurance companies and these companies pay claims to non-residents. Such payments involve money flows of considerable magnitude. Other services, the buying and selling of which lead to interstate money movements, arise in connection with transportation and tourists. It was stated in discussing the nature of the commodity trade account that to be strictly accurate, it would be necessary to use different prices for exported and imported goods, partly because of the element of transportation charges.

The problem of price difference for commodities, depending upon whether they are in or out-moving, could be most clearly handled perhaps by using primary market prices in both instances and drawing up separate freight charge ac-

The first of these two methods is that used by Jacob Viner in Canada's Balance of Interregional Indebtedness, 1900-1913, Harvard University Press, Cambridge, 1924; by Penelope Hartland in her study The Interregional Balance of Payments of New England; and by R. Dewey Dame in The Fifth Federal Reserve District - A Study in Regional Economics. The second method has been used by J. W. Angell in The Behavior of Money; B. H. Beckhart and J. G. Smith in The New York Money Market; and by Terrill in The Interregional Balance of Payments of Southern California, 1920-1934.
counts. This procedure involves a separation of freight charges paid by residents to out-of-state carriers, and freight charges paid by non-residents to "domestic" carriers, since each of these transactions requires payments across state lines. In addition, the quantity of funds flowing out of the state to settle the claims of "foreign" carriers will be reduced by the amount of the expenses incurred by these carriers within the state. Of course, the converse of this holds with respect to commodities carried outside the region for non-residents by local carriers. The net flow on transportation service account would be the difference between the two accounts after correction for expenses incurred by carriers inside and outside the state.

Another important interstate transfer of funds because of service transactions arises from tourist expenditures. Sums spent by out-of-state tourists within the state constitute a transfer of funds into the state, and expenditures by residents traveling outside the state are a reverse flow. The difference between these, if it is other than zero, represents a net flow of claims across the state's boundaries. For certain areas in recent years, the tourist trade has grown to considerable proportions.

Payments are made across state boundaries because of the exchange of corporate securities and interest and dividend settlements. State residents buy securities issued by out-of-state or "foreign" corporations and these transactions necessitate interstate transfers of funds. When these companies make interest and dividend payments to their security holders within the region, a stream of funds flows in the opposite direction. Besides this pair of counter-flowing streams of funds, there are two others arising from the action of local firms in selling securities outside the state and making interest and dividend payments to non-residents. The balance of these four streams for any period determines the net transfer of claims during the interval on private capital account.

Still another occasion for the transfer of funds into and from the state is in conjunction with the receipts and expenditures of the local, state, and national governments. The first two of these are of relatively small importance, as the principal activity of state and local governments which causes interstate movements of funds arises from their deficit financing operations. Bonds issued by state and local governments are sold outside the state of issue. These sales themselves, as well as the oppositely directed interest payments on the securities, when taken in conjunction with the volume of the bonds of other state and local governments sold within the state, together with the interest payments on the foreign securities, result on balance in a net inflow or outflow of money claims. But this constitutes a small part of the total volume of interstate payments stemming from governmental activities. Revenue collections, bond sales, interest payments, grants-in-aid, construction expenditures, pension payments, payments to military personnel, etc., by the National Government are the source of the largest part of inter-state transfers of funds by the government sector of the economic system. Since the size of the sums involved in this major portion of the government account has become so great, it is vitally significant in interregional relationships. In any particular instance it could easily outweigh in importance a number of the other individual factors simultaneously exerting some influence in interregional economic affairs. A net inflow or outflow of funds on the commodity or private capital accounts of a state could be offset or overbalanced by transfers through operations of the federal government.

A more complete treatment of this topic would require a description of the specific procedures and sources employed in compiling the requisite data.

It is assumed here that the buying of such securities represents a net increase in the quantity of claims held against non-residents by local residents.