If all enterprises were to publish accurate accounts on a uniform basis, the two statistical totals—gross national product and gross national expenditure—would, in fact, be equal. These conditions are not fulfilled in practice. National accounts must summarize transactions of enterprises that do not all keep their accounts on the same basis together with the transactions of households and small concerns that may not keep accounts at all. For these and other reasons, some discrepancy between the two sides is inevitable. With reference to the over-all magnitudes involved, it is interesting to note how close a balance is achieved.

The equality of the two statistical totals may be illustrated by comparing the economic activity of the country with the operations of a number of affiliated companies which buy only from each other, but sell also to the general public and to the Government. If the operating accounts of these companies were all consolidated, inter-company transactions in those goods and services that are charged as operating costs would cancel out. On one side of the consolidated account would appear payments to persons, such as the salaries and wages, interest and rents; payments of indirect taxes to governments; current appropriations for depreciation and other business reserves; and the total net income of the various companies divided into corporate profit taxes, dividends and undistributed profits. On the other side of the account would appear the proceeds of all sales of goods and services to the general public and to the Government and inter-company sales of those goods which have not been charged as operating costs by the purchaser, i.e., capital goods and additions to inventories. It is clear that in this case the two sides would balance, since the consolidated sales total must equal the costs of production including the profits of the companies.

A similar set of accounts can be drawn up for a closed economy, that is, a country which has no international transactions. On the one side of the account would be listed in consolidated form all the costs involved in production comprising earnings arising in production, indirect taxes and appropriations to depreciation and similar business reserves. On the other side would be listed the proceeds of all final sales. The goods and services produced during a period must be disposed of in some way. Either they are purchased by consumers or by the Government, or by firms for replacement, or for expansion of plant or equipment, or they are used for net addition to inventories. In other words the value of all final goods and services produced is measured by personal expenditure on consumer goods and services; government expenditure on all types of goods and services; and investment in capital goods, including houses, and in additions to inventories.

These three classes of expenditure would be sufficient to balance the account for an economy that has no transactions with the outside world. A further adjustment to gross national expenditure is necessary to allow for Canada's international transactions. This adjustment is made by subtracting current imports of goods and services from current exports. If Canadian exports exceed imports it means that a portion of the gross national product is not available for distribution in Canada and the value of this difference must be added to the classes of expenditure listed above. If the balance lies the other way, that is, if imports exceed exports, the expenditure on goods and services in Canada would be greater than the production and must be compensated for by an equivalent deduction in the gross national expenditure. Part of the necessary adjustment is included in Table 2 under the heading of net private investment abroad and part is included under government expenditure; it will be noted that the figures under the heading of net private