PART ONE

The National Balance Sheet of the United States

CHAPTER 1

Summary of Findings

1. THE national balance sheet is visualized in this study as the combination of the balance sheets of the seven main sectors of the American economy—nonfarm households, farms, nonfarm unincorporated business enterprises, nonfinancial corporations, financial organizations, state and local governments, and the federal government—and about twenty subsectors of the finance sector. The sectoral balance sheets in turn are regarded as combinations of the balance sheets, prepared essentially along the lines of business accounting, of all component units: fifty million nonfarm households and unattached individuals; five million farm households, including farmers' business assets and liabilities; five million unincorporated business enterprises, excluding the nonbusiness assets and liabilities of partners and proprietors; one million nonfinancial corporations; the mixture of corporations, noncorporate enterprises, and government agencies which form the finance sector; 100,000 states, counties, municipalities, and school, irrigation, and other special districts; and finally, the federal government and its agencies, except those financial and social security organizations which are regarded as part of the finance sector.[1]

2. The national and sectoral balance sheets contain duplications; the most important of these are, first, the net assets of nonfinancial corporations which appear in the balance sheet of both the corporate business sector and the sectors owning corporate stock, and, second, the assets of financial institutions which are reflected in the claims of households and other sectors. The varying extent of this duplication is an important measure of financial organization and development.

3. All types of assets and liabilities that appear in business-type balance sheets are included. However, intangible assets such as good will, patents, and trademarks are excluded; subsoil assets are generally included and military assets are occasionally included, but both are always shown separately.

4. All items of assets and liabilities are valued at current or market price, or the nearest feasible approximation to it, because uniform valuation is necessary to combine balance sheets of separate units. For most types of tangible assets, replacement cost—in the sense of original cost adjusted for price changes and for capital consumption—has been regarded as the nearest possible approximation to market value. The resulting estimates have been checked, wherever possible, against data

[1] All figures are for 1960 and are approximate.

on market value, which are usually available for only a fraction of the stock. Land has been estimated either at market value, as in the case of agricultural land, or on the basis of the average customary relationship between land and the structures on it. Claims and liabilities have been entered in the balance sheets at face value. Corporate stocks have been estimated at actual market value or an approximation of it. The interest in unincorporated business has been regarded as equal to the net worth of the enterprises. Net worth has been calculated in all cases as the difference between the market value of assets and the face value of liabilities.

5. The total value of national assets in current prices more than doubled in thirteen years after World War II, rising from less than $1,600 billion at the end of 1945 to over $3,700 billion at the end of 1958. The rate of growth during the postwar period—about 7 per cent per year—was not much higher than the average for the three decades before 1929.

6. Preliminary estimates for 1959-61 (years not covered in this study) indicate a continuation of the rise at only slightly lower rates, so that national assets at the end of 1961 probably were slightly over $4,000 billion.

7. There is a pronounced difference between the first half (1945-51) and the second half (1951-58) of the postwar period, both in the average rate of growth, which declines from 8 to 6 per cent per year, and in the structure of wealth. This difference arises primarily because the general level of prices, as well as the prices of tangible assets, increased much more rapidly during the first than during the second period, while the sharp increase in stock prices which characterized the second period was almost absent from the first. The difference in the average rate of growth, however, almost vanishes if military assets are included in national assets: their value declined during the first half of the period and increased during the second half.

8. Some of the growth in asset values was the result of price changes. If asset values are divided by a measure of the general price level (the gross national product deflator), the resulting deflated assets series increases at an average rate of 3.3 per cent a year between 1945 and 1958. Thus more than one half of the growth in the current value of national assets in that period may be attributed to the rise in the general price level. If the current values of tangible assets are deflated by price indexes for the specific assets, and those of common stock by a stock price index, while no adjustment is made in the value of claims, this specifically deflated asset series rises by 4.5 per cent per year; about two-fifths of the increase in the current value of national assets, then, results from advances in asset prices.

9. The rate of growth of national assets, after adjustment for changes in the general price level, was smaller during the postwar period than the average of 4 per cent a year which prevailed during the first three decades of the century. This difference is increased if account is taken of population growth. The postwar rate of growth of deflated national assets per capita was almost 2 per cent a year, compared with a rate of nearly 2½ per cent for the first three decades of the century. The growth of deflated national assets in the postwar period, however, was larger than not only the rate for 1929-45, which averaged only 1.4 per cent, but also the rate for the entire period 1900-58 of 3 per cent.

10. The difference between the two halves of the postwar period in rates of growth in national assets becomes more pronounced, and runs in the opposite direction, if deflated rather than current values are used. In the former case the rate of growth rises from about 2½ per cent a year in 1945-51 to more than 4 per cent in 1951-58. This rise is due partly to an advance of stock prices during the second half of the period far exceeding the rise in the general price level.

11. The value of tangible assets tripled between 1945 and 1958, whereas the value of financial assets approximately doubled during that period. This difference in the expansion of the two main types of assets reflects, to some extent, the repressed inflation which existed at the end of World War II and which manifested itself in an excess of liquid assets, on the one hand, and an artificially low level of tangible asset prices, on the other. By the end of the period most, if not all, of the excess liquidity had been absorbed by the rise in the general price level.

12. As a result of this difference, the financial interrelations ratio, i.e., the ratio of the value of financial assets to tangible assets, declined from about 1.75 at the end of 1945 to 1.25 at the end of 1958. Most of the decline occurred in the first few years after World War II when the value of tangible assets advanced substantially, reflecting a rise in the price level. Since 1948 the financial interrelations ratio has shown only little fluctuation.

13. In evaluating the decline of the financial interrelations ratio during the postwar period, it must be remembered that the ratio was at an all-time high at the end of World War II. The level of 1.20 which prevailed during most of the postwar period was similar to that observed from the mid-1920's until World War II, although it was considerably higher than the ratio of 0.80 common from the turn of the century to World War I. Thus the relation of the size of the financial superstructure to the infrastructure of national wealth (tangible assets) that existed during the postwar period was not out of line with previous experience.

14. Within tangible assets, the most important developments have been the increase in the share of producer and consumer durables from 16.5 to 22 per cent, and the decline in the share of land from 17 to 15½ per cent of the total. Both movements continue trends observed since at least the turn of the century.

15. There have been substantial changes in the structure of financial assets. The most important of these were the decline in the proportion of liquid assets (bank deposits, saving and loan shares, and short-term Treasury securities) from about 32 to 20 per cent, and the increase in the share of mortgages from 4 to 8 per cent and of corporate stock from 15 to 23 per cent—the latter reflecting almost exclusively the rise in stock prices. All main sectors show a decline in the ratio, most of which occurred during the first half of the postwar period.

16. For all sectors together, the ratio of price-sensitive assets (primarily tangible assets and equity securities) to total assets, a ratio which is one of the main determinants of the effect of price level changes on net worth changes, increased during the postwar period from approximately one-half to three-fifths. This was partly the result of the sharp rises in stock prices and the prices of tangible assets.

Interest, however, centers on differences in the share of price-sensitive assets among sectors and smaller groups. The ratio of price-sensitive to total assets increased considerably for nonfarm households, nonfinancial corporations, unincorporated business, and the federal government. It hardly increased for agriculture, state and local governments, and most financial sectors.

17. The volume of debt in the national balance sheet increased somewhat more slowly during the postwar period than the value of assets. As a result the national debt-asset ratio declined from 50 per cent at the end of 1945 to 40 per cent in 1958. Here again it is well to recall that the 1945 ratio was extraordinarily high in long-term perspective. It was much higher than the ratios of around one-third which prevailed during the first three decades of the century and was considerably higher even than the rate of slightly above 40 per cent of 1939, which was still considerably influenced by the decline in sensitive asset prices during the Great Depression.

18. The movement of the national debt-asset ratio was strongly influenced by the stability of the volume of federal debt outstanding. For all other sectors together, the debt-asset ratio was practically stable, amounting to about one-third in both 1945 and 1958. This was virtually the same ratio as in 1929 and 1939, and was only slightly above the ratio of almost 30 per cent at the turn of the century. There were, however, substantial differences in the movement of the debt-asset ratio among sectors. It increased considerably for nonfarm households

(from 5 to 11 per cent) and less for agriculture (7 to 10 per cent) and unincorporated business (from 22 to 30 per cent). No substantial net changes over the postwar period occurred for financial institutions and state and local governments, while the ratio for nonfinancial corporations showed a slight downward trend.

19. The growth of assets of the main sectors during the postwar period was far from uniform. While the assets of the federal government increased by only 47 per cent during these thirteen years (i.e., by less than the rise of almost 60 per cent in the general price level or the increase in the price of tangible assets), the total assets of unincorporated business, agriculture, and financial enterprises approximately doubled; the assets of nonfarm households increased by fully 150 per cent; and the assets of nonfinancial corporations and of state and local governments approximately tripled. The annual rates of growth thus ranged from 3 per cent for the federal government to almost 9 per cent for nonfinancial corporations, against an average rate of growth for national assets of nearly 7 per cent.

20. It is interesting to compare the sectoral rates of growth of assets, adjusted for changes in the general price level, in the postwar period with the rates prevailing in the three decades before 1930, because the national averages for the two periods were almost identical. The growth rates were considerably higher in the postwar period for all business sectors (nonfinancial corporations, unincorporated business, agriculture, financial institutions) and for state and local governments. They were considerably lower in the postwar period only for the federal government. The difference was small for the largest sector, nonfarm households.

21. Notwithstanding these differences in the rate of growth, the distribution of national assets among the main sectors did not change radically during the postwar period. The share of nonfinancial corporations increased substantially and that of nonfarm households and unincorporated business, slightly. Agriculture and the federal government, on the other hand, showed small declines in their share of national assets.

22. The share of financial institutions in total national assets declined slightly from 23 per cent in 1945 to 19 per cent in 1958, but after this decline was still equal to the level before World War II. Within each of the main types of financial assets, however, financial institutions either maintained their share, as in the case of Treasury securities and short-term loans, or increased it. Generally these increases were substantial, as in the case of mortgages (among which the share of financial institutions rose from three-fifths to four-fifths), corporate bonds (from two-thirds to over four-fifths), state and local

government securities (from one-third to over one-half), and consumer credit (from over two-fifths to almost three-fourths). Financial institutions also increased their share in corporate stock outstanding from 5 to 9 per cent. This substantial increase in the share of financial institutions in most types of financial instruments, in the face of a slight decline in their share in total financial assets and a somewhat larger decline in their share in national assets, is explained by differences between the asset structure of financial institutions and that of other sectors of the economy; i.e., the fact that the share of financial institutions was small in both tangible assets and corporate stock, the two types of assets that experienced sharp price increases during the postwar period.

23. Because of the difference in the rate of expansion of assets and debt, substantial changes occurred in the distribution of national net worth among sectors. The federal government's net overindebtedness decreased slightly in absolute terms, but diminished very sharply in relation to total national net worth. As a result, the share of all other sectors, except nonfinancial corporations, in national net worth declined.