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Introduction

National and sectoral balance sheets have three functions. The first is to serve as an integral part of a system of national accounts, as a source of macroeconomic analysis, background information, and policy formulation. The second is to provide a basis for the analysis of the financial superstructure. The third is to provide a means of analyzing the relations between real and financial assets.

A complete system of national accounts consists of two parallel parts, one dealing with real and financial flows over a period of time and the other with stocks of tangible assets and of financial instruments at a point of time. Flows and stock are linked by the fact that flows are equal to differences between stocks, and that stocks are equal to cumulated past flows, in both cases if allowance is made for valuation changes. Because of this relationship it is desirable to follow the same principles in sectoring, in itemization (distinction of types of assets and liabilities), in imputations, and in valuation for both flows and stock.

Sectorized national balance sheets are essential for the analysis of the financial superstructure. They permit the calculation of ratios and other measures which can help us understand financial structure or development. Such measures refer, for example, to the structure of financial assets and liabilities of the different sectors; the distribution of the various types of assets and liabilities among the different sectors; the relation between assets and liabilities as an indicator of the burden of debt; the degree of liquidity and variant definitions of liquid assets; the share of financial institutions in financial assets and the liabilities outstanding, in the aggregate and individually; the rate of change in current or constant prices, over a shorter or longer interval, of the value of the different categories of financial assets and liabilities; the leverage ratio, which is an indicator of the effect of price changes on net worth; the

contribution of saving and valuation changes to the change in the value of assets. On another level, information about the stocks of financial assets and liabilities is often needed for the construction of econometric models of the financial superstructure and of general models of the economy.

Sectoral and national balance sheets permit the comparison of the stocks of tangible assets and of financial assets, either for one point of time or for a shorter or longer interval. When divided by the appropriate product estimates, they yield capital/output ratios of varying scope, while the quotient of financial and tangible assets is the financial interrelations ratio, and the ratio of the market value and the cost of reproduction of the different categories of tangible assets, or the ratio of the market value of corporate stock, to net worth at replacement cost of tangible assets, provide important indicators of business cycle developments. The estimates of tangible assets also constitute inputs into the calculation of production functions. National and sectoral balance sheets have finally become of growing importance in monetary analysis as monetary theory has increasingly adopted the portfolio approach. This bare enumeration may suffice here, as I have dealt, more than a dozen years ago (Goldsmith 1967), in more detail with the uses of national balance sheets and some of the conceptual and statistical problems which they raise. The test, in any case, is whether the analysis of national and sectoral balance sheets yields results which cannot, or cannot as easily and effectively, be obtained from flow magnitudes alone.

The study starts in chapter 1 with a secular overview of the period between 1900 and 1980, which permits a comparison of the essential features of the national balance sheet in the first half of this century with those of the 1953–75 period with which the bulk of the study deals. The findings relating to that period are summarized in chapter 2. After a brief review in chapter 3 of conceptual and measurement problems, chapter 4 discusses the national balance sheet of 1975, showing how it combines the balance sheets of the nine sectors being distinguished and the different types of tangible assets, financial assets, liabilities, equities, and net worth. Chapter 5 presents and tries to explain the changes in the national balance sheet and its sectoral and instrumental structure between 1953 and 1975, stressing the differences between the less inflationary first half and the more inflationary second half of the period, and looking for evidence of the influence of business cycles on balance sheet structures. Chapter 6 reviews structural and, to a lesser extent, cyclical changes in the balance sheets of all nonfinancial and financial sectors and of the nine individual sectors. This review is supplemented by the presentation of balance sheets for subsectors of the household and of the three business sectors for a few benchmark dates within the 1953–75 period. Chapter 7 indicates how the use of a broader concept of wealth,

making allowance in particular for subsoil assets, unfunded pension liabilities, and human capital, would affect the national balance sheet. The study closes with a brief discussion in chapter 8 of changes in the main features of the national balance sheet in the 1976–80 period.