Volume Title: The National Balance Sheet of the United States, 1953-1980

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Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-30152-4

Volume URL: http://www.nber.org/books/gold82-1

Publication Date: 1982

Chapter Title: Summary of Findings for the 1953-75 Period

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Chapter URL: http://www.nber.org/chapters/c7220

Chapter pages in book: (p. 23 - 28)

2 Summary of Findings for the 1953–75 Period

1. At the end of 1975, national assets, i.e., the sum of the assets of the over 85 million economic units in the United States—households, nonprofit institutions, financial and nonfinancial business enterprises, and governments—amounted to nearly \$14 trillion at market prices or replacement costs, or 8.5 times the gross national product. This total includes the value of land, reproducible tangible assets including consumer durables and semidurables, and financial assets. It is equivalent to per head assets of about \$65,000, or per unit assets of about \$160,000.

2. By a broader definition, not used in the body of this study, including rough estimates of the value of subsoil assets, the value of standing timber, research and development expenditures, and unfunded pension liabilities, national assets would reach about \$18½ trillion in 1975, fully one-third above the conventional total.

3. National assets in 1975 were the sum of \$6.6 trillion tangible assets and \$7.2 trillion financial assets, yielding a financial interrelations ratio of almost 1.10 and a capital/output ratio of slightly above 4. Nearly one-fourth of tangible assets consisted of land; close to one-half of structures; almost one-eighth of equipment; approximately 7 percent of inventories; and fully one-tenth of consumer durables and semidurables. One-fourth of the financial assets were in the form of equities, divided about equally between corporate stock and equity in farm and other nonfinancial unincorporated business enterprises; and three-fourths were in the form of claims. Among claims, deposits with financial institutions accounted for fully one-fifth; government securities for one-seventh; corporate bonds for fully one-twentieth; mortgages for one-seventh; insurance and pension reserves for slightly above one-tenth; trade credit for a little over one-twentieth; and all other types of claims for somewhat below one-fifth.

4. Measured by size of assets, households constituted the largest sector, with slightly above two-fifths of national assets. The two government sectors accounted for one-eighth of national assets, divided in the ratio of about one to two between federal and state and local governments. The three nonfinancial business sectors held about one-fourth of national assets, whereof nearly two-thirds were held by nonfinancial corporations, one-sixth by agriculture, and one-fifth by other unincorporated enterprises. Financial institutions controlled nearly one-fifth of national assets. The two remaining sectors, nonprofit institutions and the rest of the world, each accounted for less than 2 percent of national assets.

5. The structure of the balance sheets of the various sectors differs greatly in the ratio of tangible to financial assets as well as in the types of tangible or financial assets held, and in the ways the assets are financed. The share of tangible assets is very high, exceeding three-fourths, in the nonfinancial business and government sectors; negligible in financial institutions; and midway, at slightly below two-fifths, for households. Most sectors' financial assets consist mostly of claims. It is only households, nonprofit organizations, and financial institutions that hold a substantial proportion of their financial assets in the form of equities—fully two-fifths, nearly three-fifths, and one-ninth respectively. There are also great differences in the debt ratio of various sectors indicative of different methods of financing. While the ratio is slightly in excess of unity for the federal government and amounts to over nine-tenths for financial institutions, it ranges between one-eighth and one-fifth for the other sectors except for nonfinancial corporations, for which it is slightly in excess of two-fifths.

6. The distribution of the various assets and liabilities among the nine sectors reflects both the portfolio policies of these sectors and their relative size. For instance, though households are by far the largest sector, they hold only a relatively small part of some tangible assets like equipment and of some financial assets like corporate bonds and mortgages. On the other hand while they account for only two-fifths of national assets, they hold nearly nine-tenths of time and savings deposits, nearly three-fifths of demand deposits, currency, and corporate stock, (excluding intercorporate holdings), and all insurance and pension claims, trust funds, and unincorporated business equity. This discrepancy is by its very nature still more pronounced in the case of financial institutions. With less than one-fifth of national assets they hold more than four-fifths of corporate bonds, mortgages, bank loans, and consumer credit and about three-fifths of government securities. The concentration of holdings in one or just a few sectors is even more pronounced among liabilities. Of the seventeen types distinguished, nine have only one issuing sector, and two more have only two or three.

7. Between 1953 and 1975 the current value of national assets increased at an average annual rate of 7.4 percent. If, however, account is taken of the rise in price, the rate of growth is reduced to 3.6 percent. If is further reduced to 2.3 percent if put on a per head basis. Developments in the first, noninflationary, half of the period differed considerably from those in the second, inflationary, half. While the rate of growth of national assets in current prices rose from 6.3 percent in 1954–64 to 8.5 percent in 1965–75, the rate declined in constant prices in the aggregate from 4.5 to 2.7 percent and on a per head basis from 2.8 to 1.7 percent. National assets increased slightly more rapidly than gross national product in the first half of the period, raising the ratio from 7.94 to 8.60, but expanded at the same rate as national product during the second half. The capital/output ratio, on the other hand, increased only from 3.69 in 1953 to 3.76 in 1964, but rose more rapidly in the second half of the period to 4.12 in 1975.

8. The annual rates of change in national assets showed considerable year-to-year fluctuations, both in current and in constant prices. The range in current prices was between +3.2 and +10.9 percent, and that in constant prices between −3.7 and +7.2 percent. All annual changes were positive in current prices, while in constant prices three of the twenty-one values were negative (1969, 1973, and 1974). The rates of change were low—below those of the preceding and the following year—both in current and in constant prices in five of the six cyclical trough years during the period (1957, 1960, 1962, 1966, 1974), as well as in 1969, one year before the trough of 1970. They were generally high, though not always at a maximum, in the first year of an upswing, such as in 1958, 1961, 1963, 1967, 1971, and 1975.

9. Compared to an average rate of growth in current prices of 7.4 percent sectoral rates of growth ranged from 4.2 percent for the federal government to 10.6 percent for the rest of the world (foreign investments in U.S.A.). The three largest sectors grew at rates of 7.1 percent (households), 7.9 percent (nonfinancial corporations), and 8.2 percent (financial institutions). In current prices the rate of growth in the second half of the period was above that of the first half for all nine sectors, and sharply so for the three business sectors. In constant prices the position was reversed, all nine sectors showing a lower rate of growth in the second half of the period including a negative rate for the federal government. For the period as a whole assets increased more rapidly than gross national product for six of the nine sectors, the exceptions being the federal government and the two unincorporated business sectors. A very similar picture is shown for the two halves of the period, the main exception being a reduction of the ratio of household assets to national product during the second half of the period.

10. As a result of the differences in growth rates the distribution of national assets among the nine sectors changed, though not greatly. Thus the share of the household sector declined from 43.3 to 40.9 percent; that of the three business sectors fell from 25.2 to 24.4 percent, nonfinancial corporations gaining at the expense of farm and nonfarm unincorporated business; that of the two government sectors declined from 13.1 to 12.4 percent, the federal government losing sharply (from 7.5 to 3.9 percent), while state and local governments gained (from 5.6 to 8.5 percent); and that of financial institutions advanced substantially from 16.3 to 19.1 percent. In some of the sectors most of the changes occurred during the first part of the period (nonprofit organizations, unincorporated business, financial institutions); in others during the second half (nonfinancial corporations, state and local governments); and in some about equally during both halves (federal government, rest of the world). The household sector was unique in that its share increased substantially during the first part of the period, but declined during the second part.

11. There were more substantial differences among the rates of growth of the tangible and financial components of the national balance sheet. Total tangible assets grew at a rate of 7.6 percent in current prices compared to one of 7.2 percent for financial assets. This was due to a substantially more rapid rate of growth of tangible assets in the second half of the period, while during the first half financial assets had grown somewhat more swiftly. Among tangible assets land grew most rapidly in value at an average rate of 9.3 percent and consumer semidurables least rapidly at 5.6 percent. The range of growth rates among financial assets was considerably wider, partly because the national balance sheet distinguishes a larger number of types of these assets. The highest rates, over 16 percent, were shown by two assets, which were of very small size at the beginning of the period, U.S. agency securities and open-market paper. Among important financial assets growth rates were high—above 9 percent—for time and savings deposits, state and local government securities, mortgages, bank loans, and direct foreign investments. Rates were low—below 6 percent—for demand deposits and currency, U.S. government securities, and equity in unincorporated business enterprises. Growth rates, in current prices, were higher in the second than in the first half of the period for all types of tangible assets and for all financial assets except corporate stock, mortgages, consumer debt, and trust funds. In constant prices, on the other hand, the rate of growth was in most cases lower in the second than in the first half of the period, the exceptions being equipment, consumer durables and semidurables, U.S. and U.S. agency securities, equity in unincorporated business, and miscellaneous financial assets.

12. Changes in the structure of the national balance sheet reflect the differences in the rate of growth of individual assets and liabilities. Thus

the division of national assets between tangible and financial assets changed but little, the share of tangible assets increasing from 46 to 48 percent. Within tangible assets, however, the share of land advanced sharply from 17 to 24 percent. Among financial assets the shares of time and savings deposits, U.S. agency securities, mortgages, and bank loans increased substantially, i.e., by at least 1 percent of total assets, while those of demand deposits and currency, gold and foreign exchange, U.S. government securities, and equity in unincorporated business declined significantly.

13. As a result of the differences in the rates of growth of assets of the various sectors and of the changes in their portfolio structure, there were substantial changes in the way in which the several types of assets and liabilities are distributed among the nine sectors. Thus between 1953 and 1975 the share of farm business in the total value of land declined by 9 percent, while the shares of nonfinancial corporations and state and local governments increased by about 4 percent each, and that of households rose by fully 2 percent.

14. Of the important ratios that can be derived from the national balance sheet, the capital/output ratio in its broad version, which includes all tangible assets in the numerator, rose between 1953 and 1975 from 3.7 to 4.1; in its narrower version, in which the numerator is limited to reproducible tangible assets, it advanced only fractionally from 3.0 to 3.1. The financial interrelations ratio (financial : tangible assets) showed an irregular, slightly downward trend from 1.18 to 1.09, after having reached a peak of 1.36 in 1965, if the equities of households in unincorporated farm and nonfarm enterprises and in personal trust funds are included, but declined only from 0.94 to 0.92, after a peak of 1.16, if they are excluded, i.e., if those four sectors are consolidated as is the more common procedure. The financial intermediation ratio (assets of financial institutions : all financial assets) advanced substantially and fairly regularly from 0.30 in 1953 to 0.36 in 1975 if household equities in unincorporated enterprises and personal trust funds are included among financial assets; and proportionately somewhat less, viz., from 0.38 to 0.44 if they are excluded, indicating in both versions a substantial increase in the importance of financial institutions in the financial structure. The debt ratio remained without trend slightly in excess of one-third.

15. The effects of the inflation prevailing during the second half of the period may be seen in several differences in the national balance sheet of the first and second halves without claiming exclusive causation. Probably the most important effect is the acceleration of the growth of national assets in current prices from 6.3 to 8.5 percent and the deceleration in constant prices from 4.5 to 2.7 percent in the aggregate and from 3.2 to 1.4 percent on a per head basis, accompanied by a halt in the upward tendency of the ratio of national assets to national product. The

decline in the share of financial to national assets by 5 percent of national assets in the second half of the period following an increase by 3 percent in the first half, as well as a fall of the financial interrelations ratio from 1.30 to 1.08 in the second half of the period compared to an increase from 1.16 to 1.30 in the first half, may also be attributed, at least in part, to the inflation. Developments of this type may be expected in any inflation where large amounts of fixed face value claims are in existence whose value does not change while that of tangible assets and of price-sensitive financial assets increases. Thus the share of insurance and pension reserves in national assets declined in the second half of the period after having increased in the first half. There was, however, one outstanding exception: The market value of corporate stock in current prices increased much less in the second than in the first half of the period, and in constant prices even declined substantially; and its share in national assets as well as its ratio to national product fell sharply during the second half of the period.

16. Inflation was a factor also in some of the changes in the distribution of national assets among sectors, tending to increase the share of sectors with a high proportion of tangible assets and/or a high debt/assets ratio, such as nonfinancial corporations and state and local governments; but it was more than offset by other factors in the case of other sectors such as farm and nonfarm unincorporated enterprises.

17. The effect of inflation is clearest in the level and movement of the share of revaluations that reflect assets-price movements in the change in total assets and net worth. Thus revaluations are estimated to have accounted for nearly one-half of the total increase in national assets in current prices for the entire period, rising from a share of fully two-fifths in the first to one of one-half in the second half of the period; and for less than two-thirds of changes in net worth of all sectors in the 1954–64 period, but for four-fifths in the more inflationary 1965–75 span. They were considerably higher for the government and business sectors than for the household sector.