

Macro Financial Balance Sheets 1980 – 2010(11) – Alternative Approach

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The recent global financial crises have brought up the need for macroeconomic financial statistics in particular on stocks and balance sheets, on integration of real and financial economy and on asset prices and holding gains. This paper, that is a continuation of the paper Balance sheets – a financial approach, intends to make some clarifications and to provide some new ideas in the area. The 2010 IARIW paper focussed on capital stocks and balance sheets, theory, concepts and statistics. Also an alternative, financial approach was tentatively sketched along with some very preliminary calculations.

In this paper this last section will be further elaborated and developed and time series data from 1980 – 2011 will be shown. It is planned also a final section to deal with return on capital in a broader sense i.e. that both property income and holding gains are included and related to stocks according to the alternative financial approach.

The financial markets (involving all financial assets and liabilities) moves (expected) economic benefits forward – and backward – in time through savings and borrowing. This is however partly true also for real assets (tangible and intangible non-financial assets). Consumption does not generate capital since consumption is assumed to take place in “current period”, Production and capital formation, on the other hand, imply that expected economic benefit is put forward in time in the form of capital stocks (buildings, machinery, and equipment).

For final owner categories of capital (households and government) an investment means that consumption is given up in exchange for expected higher future economic benefits. But - what should also be mentioned - at a higher risk exposure. The above mentioned general characteristics of financial and non-financial assets would imply that the two capital categories could be treated in the same manner – preferably as financial.

Consequences of applying a financial approach on institutional sector balance sheets are among others that

1. All assets and liabilities- whether actually financial or imputed, whether interest-bearing or equity – are consequently valued at current market prices or at corresponding value in the financial approach.
2. Final capital owners sectors (households and government) cannot directly own real assets according to the financial approach. Their legal owning of e.g. real estate is transformed into financial assets through imputed fictitious corporate units (corresponding to the treatment in the Balance of Payments (BOP)).
3. All corporations and corporate units whether actual or imputed are treated as intermediaries i.e. they are at one hundred per cent owned by their owners. The “corporations” have no own saving and no net worth. The liability side of this extended “corporate sector” is thus entirely the total sum of debt and equity instruments at market value.
4. The compilation of the balance sheet of the extended corporate sector gives a residual on the asset side containing the total value of all non-financial assets at national level. This national

wealth item (if completed with net assets to the ROW) is valued at current market prices. It should be noted that this item includes also intangible assets.

5. By adding a calculation of all tangible assets – at market value – a residual item indicating the size of intangible assets can be compiled.