

A CONCEPTUALISATION:

A National Supply and Demand Account

From the Perspective of Proper Persons

For the United States of America in 2014

Principles Adopted in the Preparation of this Account

1. The purpose of production is consumption.
2. The cost of production is consumption (that is, the consumption appertaining to it).
3. The purpose of a national economy is the objective good of its people (i.e. to deliver the goods and services that they need to survive and flourish, while calling upon the least amount of labour and resource consumption). This excludes employment, corporate profits or economic growth per se as the end social objects.
4. Calculations of Gross Domestic Production are measures of human activity, not human satisfaction.
5. That National Supply and Demand Accounts, (the commercial equivalents of which are Profit and Loss Accounts), though nowhere in existence, when constructed from the perspective of accessing the economic satisfaction of its national proper persons, are the best measure of a Nation's economic performance.
6. This account has been constructed with a view to ascertaining aggregate personal income available to enable personal access to the gross national consumer production available.
7. While all GDP (\$17,418.9 billion in 2014) is ultimately paid for by consumers, either in prices or taxes, capital goods have been removed from this account as their inclusion in prices, usually as depreciation charges, does not take place until a later period of time.
8. GDP treats exports as increased production activity, while this account treats exports as a decrease in production availability.
9. It was resolved, as a principle, to proceed in spite of analytical difficulty. National accounts as currently available, while no doubt approximately accurate for their intended purpose, are careless in differentiating out proper person's receipts, for example, from "private" receipts. As a result the GDP component "Personal Interest Income" is given as \$1,302.0 billion, while "Personal Interest Payments" are \$254.2 billion. This implies a clearly inaccurate situation where proper persons have loaned out over five times the sum of their debts. Data to properly correct this is not sufficiently available from any national accounts as presently presented, to our knowledge.
10. Notwithstanding the dearth of clear data specific to proper persons, and differentiating them from private corporations in many items, this account was persisted with, not because of its likelihood of achieving *accuracy* but because of its absence, and in the hope of advancing the realisation that the true measure of an economy's performance in terms of human outcomes (see 3 above) is calculable (and probably only calculable) along the approximate lines used here.
11. Once Nations' resources are committed to a full set of accounts aimed at understanding their economies, the estimated unused but available potential capacity to produce desirable consumer goods, when, where and as required, could be an additional part of this account, and form part of the basis upon which the need for additional purchasing power (if any) would be calculated. In other words, Gross Consumer Production would identify actual consumer production in the

period, but it either may also include, or be associated with an additional account, for the purpose of quantifying the *unused capacity* to produce desirable consumer production.

Section A

<u>Aggregate Personal Income</u>		<u>US\$ Billions</u>
1.	Wages & Salaries	7,477.8
2.	Supplements to Wages and Salaries (Employer contributions for Pensions, Insurance and Social Insurance etc.)	1,771.2
3.	Personal Dividend Income	815.5
	Less a 50% discount for corporate payees. (see point 3 in Sources, Section A, for notes)	407.75 407.7
4.	Personal Interest Income (nominally given as 1,302.2 with personal interest payments as 254.2 which excludes mortgage interest.) (see point 4 in Sources, Section A)	N/A
5.	Government Social Benefits to Persons	
	Social Security	843.6
	Medicare	597.8
	Medicaid	487.4
	Other	567.4
	Total	2,487.2
	Less contributions for social insurance	1,159.0
	Net Receipts	1,328.2
6.	Less Individual Income Tax paid.	1,721.4
7.	And other taxes to fund government actual consumption	1,430.6
8.	Total Appropriations from persons for government consumption *	(3,152.0)
9.	Rental Income of Persons	610.8
	Plus adjustment of 387.0 (see Sources Section A, Point 9)	387.0 997.8
10.	Proprietors' Income (with inventory and capital consumption adjustments)	1,346.7
	Less discount of 25% for unmonetised income. (See Sources Section A, 10)	(336.7) 1,010.0
11.	Household Debt Servicing Payments. 10.039% of disposable Personal income of \$12,913.9 B which includes Personal Interest Payments of \$254.2 B and Mortgage Interest Payments of \$387.0 billion, and Fred estimates of redemption of capital.	(1,296.4)

12. Other Transfer Receipts from Business (net) 42.0

Total Aggregate Personal Income (purchasing power available for current consumption) **8,586.3**

Items 1 – 5 above are sourced from Federal Reserve Economic Data (FRED), the Economic Research Division of the Federal Reserve Bank of St. Louis. The link: <https://research.stlouisfed.org/fred2> and help <https://research.stlouisfed.org/fred2/help-faq> The main source documents were “Table 2.1. Personal Income and Its Disposition (/fred2/release/tables?rid=53&eid=4082): Annual” and “A Guide to the National Income and Product Accounts of the United States”.

*This amount is the amount deemed to be contributed to US GDP in 2014 by governments; it includes both “final consumption expenditure” and “gross capital formation”. Since total direct government revenue for 2014 was \$5,970.91, almost double the expenditure included in GDP, it is reasonable to ascribe its funding to the taxing of proper persons.

The US Bureau of Economic Analysis says Government only contributed \$3,152 billion to GDP in 2014, though Total Direct Revenue is given as \$5,983 billion.

http://useconomy.about.com/od/grossdomesticproduct/f/GDP_Components.htm tells us that “Government spending added \$3,152 billion to the economy in 2014, 18.2% of total GDP.”

Section B

<u>Gross Consumer Production</u> and Imports available.	<u>US\$ Billions</u>
1. Personal Consumption Component of GDP (actual)	11,866.0
2. Adjustment of Rental Income (see Sources, Section A, Point 9)	387.0
3. Net Consumer Goods Imported *	
Imports of food and beverages, automotive products and other consumer items	857.0
Less exports of same	(467.0) 390.0
<u>Gross Consumer Production</u>	<u>12,643.0</u>

*Above data is sourced from Exhibits 7 & 8 at <http://useconomy.about.com/od/tradepolicy/p/Imports-Exports-Components.htm> This is for the year 2013, and the assumption is made that 2014 will be similar, until the data for 2014 becomes available. These net imports increase consumer product available. Detailed data on the import/export of consumer related *services* has not been found or is unavailable.

Notes

If this were a corporate account the difference between the Gross Consumer Production of \$12,643.0 billion, and the net funding of incomes in the process of producing it of \$8,586.3 billion, would be considered as a profit and form the basis of issuing a dividend.

This “profit” of \$4,056.7 billion in a population of 318.9 million people in 2014 amounts to \$12,720.91 per person, or \$50,883.64, per family of four persons. As no attempt is made to distribute this as a dividend, it only becomes available for consumption in such ways as proprietors selling at a loss, or by increasing the money supply through increased indebtedness, distributed by way of credit card and other consumer debt, by persons surrendering assets for a monetary outcome, and/or by government and corporate debt increases. The purpose of quantitative easing is to assist this process.

Obviously proper persons received some interest payments even though we have listed them as Not Available. Even if we were to accept the whole sum given in the GDP as Personal Interest Income of \$1,302.2 billion, this would leave a deficiency of purchasing power in the hands of consumers of \$2,754.5 billion. This is still \$8,637.50 per head of population and \$34,550 per family of four. The social and economic ramifications which flow from this, while outside of the scope of this account, warrant a “conceptual revolution” in finance/economics.

The above account includes a reduction of purchasing power for debt repayments. These payments (of \$1,296.4 billion) contribute nothing to current consumption, for they are the repayment of debts incurred from previous consumption. FRED (also cited above) tells us that “Household Debt Service Repayments as a % of Disposable Personal Income in 2014 were 10.039%”.

The gross imbalance evident in the above account is only sustained by large annual increases in indebtedness. As a part of this, US Federal Government debt increased by \$1,086 billion in 2014 (from \$16,738 B to \$17,824 B, 30th Sept '13 to '14). But this is only a very small part of total indebtedness in the USA. There are also State and Local Government debts, and corporate and private debts. In the past, the easiest way to approximate the Gross National Indebtedness (GNI) was to look at the increase in the money supply. All modern money is created by borrowing from banks, and cancelled when these loans are repaid, so the amount of total debt, irrespective of whose debt it is, approximates the money supply, usually defined as M3.

Total indebtedness is unfortunately no longer so easily knowable as the Federal Reserve Bank of New York tells us in <https://www.newyorkfed.org/aboutthefed/fedpoint/fed49.html> “In March 2006, the Board of Governors ceased publishing the M3 monetary aggregate.”

Anomalies abound. FRED tells us that that Disposable Personal Income in 2014 was \$12,913.9 billion, and this item is defined as total income less income taxes which are \$1,721.4 billion. So the total of personal income is \$12,913.9 plus \$1,721.4, which equals \$14,635.3 billion, BUT WHERE ARE THEY? What they appear to be doing is assuming

that all GDP is income. They take off corporate spending which is 16.5% of GDP in 2016, which if this is the figure for 2014, would be equal to \$2,874.1 billion of the 2014 GDP of \$17,418.9. This leaves \$14,544.8; a very close approximation of DPI plus income tax. With the tax out we are back to a figure of \$12,823.4 which is very close to their DPI of \$12,913.9

They are not adding up personal income at all, but assuming income which cannot be found to exist by adding its component parts, as the official statistics in the API account make plain. Currently Disposable Personal Income is a construction of creative accounting, and is not the sum of income actually received into personal pockets less income tax at all.

Addressing an Imbalance

An imbalance between Aggregate Personal Income and Gross Consumer Product of these proportions demands explanation.

There are two main contributing factors which allow an income of X to consume a product equal to X+Y. These are an increase in personal debt, and the liquidation of personal assets.

The Liquidation of Personal Assets

If a Government using part of its deficit, buys the property of a retiring farmer to build an airport (or any other public facility), thereafter this deficit increase in Government debt funds personal consumption.

Likewise if a widow whose family has grown up, decides to sell or downsize her residence by selling it to a company to fund her consumption in retirement, there would, if the residence was 30 years old or so, be no new production involved, but additional consumer purchasing power is available.

These types of sales where proper persons relinquish assets to say, Governments or Corporations, mean that personal consumption is funded by Government and corporate borrowing (or use of reserves) to buy private assets. While this type of funding of personal consumption has never been properly researched and quantified by statistical authorities, it is undoubtedly very significant.

The progressive selling down of assets to enable personal consumption tends to disinherit the next generation; at least in part, explaining the drift away from private home ownership. The root cause being the disparity disclosed in the above accounts; the selling of private assets being a consequential attempt to address it; and the impoverishment of proper persons vis-a-vis Corporations and Governments, being the direct outcome of the refusal to pay a national dividend to end the disparity.

As another way of saying it, an insufficiency of purchasing power in the hands of the consuming public may be funded (under present conventions) by either increasing consumer debt, or reducing the personal assets of the consumers. It is the sum of the two of these which is significant, and either one, of itself may mislead.

In a situation where corporations can readily borrow funds at rates of interest which allow assets normally held by proper persons to be profitably acquired (albeit at moderate rates of profit), and where proper persons are continually thwarted from consuming due to a purchasing-power-ratio-to-product deficiency, one may anticipate a drift, perhaps small, but of course potentially remorseless, of assets to the top 10% from the bottom 90% of asset holders. Many studies, some elaborately promoted and acclaimed, assert as much. Thomas Piketty’s “Capital in the Twenty-First Century” has drawn attention to this process, though without a proper set of National Accounts he could hardly diagnose the cause with precision. A shortage of personal purchasing power is not part of his diagnosis of causes. Were personal purchasing power more adequate, could his diagnosis of “a lack of growth” be sustained, and might the progressive surrender of personal assets by 90% of the population be addressed? With the widely anticipated progressive displacement of human labour by technology, the deficiency of personal purchasing power may be expected to quicken, deepen and strengthen.

The Increase in Personal Debt

Personal debt comes in many forms. The most significant probably being home mortgages, credit card debts and personal loans. Accounts payable to landlords, local businesses and utilities play a part, as do hire purchase, time payment and lay-by contracts. Buy-now-and-pay-later arrangements are readily available for pretty much all products, certainly all consumer-durable products. It is almost as though there were a dearth of consumer purchasing power to enable consumption of the products so evident everywhere. Perhaps you agree that there is such?

Selling the second vehicle to pay down the credit card, and such like stratagems, will long mask the rise of consumer debt, though the decline of the net worth of 90% of proper persons will become increasingly evident.

However, to the extent that statistical data has been collated and is available to us, debt increases of relevance to funding the apparent deficiency in purchasing power in 2014 are listed below:

<u>Indebtedness increases in 2014</u>	<u>\$ billions</u>
1. Federal Deficit	744.2
2. State and Local Government Deficits	N/A
3. Increases in Corporate Indebtedness	304.0
4. Increases in Private Home Mortgage Debt	120.0
5. Increased Credit Card Indebtedness	31.0
6. Increased Auto Loans	78.0
7. Increased Student Loans	99.0
8. Other Credit	10.0
Total Increase in debt itemised here	1,386.2

A Conclusion

It would be a mistake to attempt to turn this account into a philosophical theses, but the reticence to consider the economy from the viewpoint of its shareholders, as it were, and rather to simply measure activity, must spring one would think from some little examined attitudes of mind, and presumably from well-worn emotional footpaths.

Though perhaps there really is a case for seeing this account as addressing itself to a philosophical cleavage existent in society. On the one hand there are those who primarily view themselves and each other as proper persons, and society as an organic whole, no matter their professional roles, exalted or not.

On the other, are those entrapped in their self-identification as corporate-persons, as soldiers in the puppet mastery of organising the human organism in the service of abstract ideals, undoubtedly laudable and always convincing! These, and their legion of ambitious apprentices, see the world in needful want of artificial assistance. The twain doesn't meet, though persons, who cannot escape being proper persons of course, can change their minds.

Many of us will play both roles at different times of our lives, and some will be proper persons in the evenings with the family, and corporate persons serving abstract objects during working hours. It is likely that leaving this conundrum unexamined is responsible for more damage than wantonly making the wrong choices. Is there a case, at least occasionally, for submitting all things to the bar of "personalism" (the viewpoint that proper persons [their wellbeing and freedom] are the end of all social arrangement)?

It may be subtle, but perhaps this conundrum is a rather large issue in human affairs?

Sources

Section A

1. Wages and Salaries. (/fred2/series/A576RC1A027NBEA)
2. Supplements to Wages and Salaries. (/fred2/series/A038RC1A027NBEA)
3. Personal Dividend Income. (/fred2/series/B703RC1A027NBEA) As is clear from *A Guide to the National Income and Product Accounts of the United States* currently distributed (published circa 2005), *Personal Dividend Income* is calculated under corporate profits (with adjustments) in Account 2, less dividends received by Government in Account 4. It is in fact all dividends distributed other than to Government.

The Research Analyst of Fact Set Research Systems Inc. provided a spread sheet on 28th Nov. 2015 of *the Company's shares outstanding held by individuals* (which included partnerships of individuals) for each of the 480 Companies then included in the Standard and Poor's 500 Index. In only 150 of these Companies did proper persons hold above 1% of their shares, and they only held 2.17% of S & P 500 shares overall. In 2015 2.17% of S & P 500 dividends of \$415.4 billion, amounted to just \$9.01 billion.

The 50% discount is obviously low in light of the above, but the point is made.

4. Personal Interest Income. (/fred2/series/A064RC1A027NBEA) and (/fred2/series/B069RC1A027NBEA) The NIPA Guide referred to above in Point 3 makes plain the process of calculating the "Personal Interest Income". First we add the Interest and miscellaneous payments of all private enterprise (Account 2) and Government interest payments (Account 4) and also personal interest payments (Account 3) and foreign interest income (Account 5). After this we deduct all private enterprise interest income receipts (Account 2), Government interest and miscellaneous receipts (Account 4) and foreign interest payments (Account 5). The result is designated as *Personal Interest Income* of \$1,302.0 billion in 2014, although what part proper persons might have in it is completely obfuscated. Interest income of proper persons is probably negative. Household debt service payments given by FRED as \$1,296.4 billion in 2014 would so indicate.

Net interest payments of private enterprise, Government, and from foreign entities obviously went somewhere. The current construction of the GDP calculations nominates all activity as either Corporate, Government, foreign or personal. This item has been nominated as "personal" though it does not necessarily indicate that all these payments were to proper persons. Receipts of interest by Banks are not specifically mentioned.

5. Government Social Benefits to Persons. Sourced from Table 2.1. Personal Income and Its Disposition (/fred2/release/tables?rid=53&eid=4082)
6. Individual Income Tax Paid. www.usgovernmentrevenue.com
7. Other Taxes to fund Government Consumption. Proper persons cannot retain their ability to consume to the extent that they fund the consumption of others. GDP calculations for 2014 ascribe \$3,152 billion to Government spending. This figure for additional taxes of \$1,420.6 billion does, when added to income tax of \$1,721 billion, equal the total consumption appropriated from persons for the uses of Government.

8. Appropriations from individuals to fund Government Consumption. http://useconomy.about.com/od/grossdomesticproduct/f/GDP_Components.htm tells us that “Government spending added \$3,152 billion to the economy in 2014, 18.2% of total GDP.”

9. Rental income of Persons. This item is comprised of income from real property, including the imputed rent of owner occupiers (with capital consumption adjustments) and also royalties from patents, copyrights and natural resources. This description is from the 2005 Guide to NIPAs. It also informs that “*Personal Interest Payments* consist of all interest paid by individuals except mortgage interest, which is reflected in rental income of persons.” Mortgage interest in 2014 was \$387.0 billion as per link:

bea.gov/iTable/iTable.cfm?reqid=9&step=3&isuri=1&904=2005&903=6082&906=a&905=2015&910=x&911=0#reqid=9&step=3&isuri=1&904=2005&903=6082&906=a&905=2015&910=x&911=0

Rental income given in GDP data as \$610.8 billion has been adjusted upwards by \$387.0 billion as this mortgage interest is shown as a negative figure under Point 11 in Aggregate Personal Income.

10. Proprietors’ Income. This item is described as “the current-production income of sole proprietors and partnerships and tax-exempt cooperatives.” It excludes imputed rental value, dividends, interest and paid rents received. It also excluded any wages or salaries proprietors pay to themselves as these are also recorded elsewhere. This being so it largely records production in the form of inventories and capital production in excess of capital consumption to give the positive figure of \$1,346.7 billion.

Only that part of this production which was actually sold during the period represents actual purchasing power in the hands of consumers, so as a measure of this, a discount is warranted. The discount applied is an arbitrary 25% for want of appropriate data, the contradiction of which would be welcomed as a means of approaching accuracy. See the 2005 Guide to NIPAs for the configuration of this item.

11. Debt Servicing Payments. Payments of debt servicing fees are payments incurred for previous consumption, and they detract from the capacity to pay for current consumer production. They detract from Aggregate Consumer Income in the current period. The sources of Disposable Personal Income of \$12,913.9 billion, and the percentage of this which was used in servicing household debt (10.039% when the quarterly figures are averaged) are both for 2014 and from FRED, and are given below:

A067RC1A027NBEA Disposable personal income, Billions of Dollars, Annual, Not Seasonally Adjusted and TDSP Household Debt Service Payments as a Percent of Disposable Personal Income, Percent, Quarterly, Seasonally Adjusted.

In the BEA’s GDP calculations interest paid by proper persons on their mortgages is offset against imputed rental value of owner-occupiers, and is expressed in Rental Income of Persons. In Section B Point 2 this has been reversed. The Debt Servicing Payments figure of \$1,296.4 billion includes the mortgage interest of \$387.0 billion.

12. Transfers from Business. [/fred2/series/B931RC1A027NBEA](http://fred2/series/B931RC1A027NBEA)

Section B

1. The Personal Consumption Component of GDP. This is given at ([/fred2/series/PCECA](http://fred2/series/PCECA)) for 2014 or at

http://useconomy.about.com/od/grossdomesticproduct/f/GDP_Components.htm

This figure of \$11,866 (rounded from \$11,865.9 in the BEA accounts) billion is designated as “Personal Consumption Expenditures” in the official GDP statistics. As such its status is as authoritative as official figures can be. Nevertheless, it is almost certainly “woolly”, and suffering from the perceived need to classify items in the GDP as either Personal, Governmental, or Corporate, and the approximations that must accompany this practice.

Disentangling its myriad inexactitudes without access to all of its undoubtedly mountainously voluminous source data is not possible in this current work. Prudence suggests to us that a measure of exaggeration is here present, at least for the period under consideration, namely 2014, and in some measure this may account for the account’s ‘imbalance’.

The validity of this figure depends upon the dynamic of incorporating time into its calculation. Conventional cost accounting decrees that all costs can only be amortised through ultimate proper person’s consumption. Barring dysfunctional loss through such as bankruptcy, selling below cost, or sabotage etc. all the costs of producing bread are transferred forward until this becomes impossible by the fact of the consumption of that bread.

For this reason the whole of GDP (barring dysfunctional loss) must ultimately find its way into the prices of final Personal Consumption Expenditures, the only outstanding question in this, is when they will do so. Total GDP of \$17,418.9 billion is a very long way indeed from this account’s identifiable actual aggregate personal purchasing power of \$8,586.3 in 2014. The demon is wholly in the dynamic.

We have chosen, therefore, in spite of considerable reservations as to timing, to accept the BEA’s estimate for “personal consumption expenditures” of \$11,866 billion, in the interim, as being accurate.

2. Adjustment of Rental Income. This is a reversal of mortgage interest of \$387.0 billion which was deducted from rental income in the 2014 GDP. See also Point 9 in Section A.
3. Net Consumer Goods Imported. Sourced from Exhibits 7 & 8 at <http://useconomy.about.com/od/tradepolicy/p/Imports-Exports-Components.htm> This is for the year 2013, and the assumption is made that 2014 will be similar until actual data for 2014 becomes available. Net imports increase product available. Detailed data on the import/export of consumer related *services* has not been found or is unavailable.

Sources of Debt Statistics

1. Federal Deficit. From www.usgovernmentrevenue.com
2. State and Local Government Deficits. As of April, 2016, financial statistics for State and Local Governments had not been completed for 2014 by the Bureau of Economic Analysis. Advise via email on 25th April, 2016 from EWD Local Finance (CENSUS/EWD) ewd.local.finance@census.gov With some cities facing extreme financial difficulties and others bankruptcy, a very substantial figure here may be anticipated.
3. Increases in Corporate Indebtedness. Fourth quarter 2013 to 4th Q 2014 (\$4,803 B to \$5,107 billion) <https://research.stlouisfed.org/fred2/series/NCBDBIQ027S>
4. Increases in Home Mortgage Debt. From nerdwallet.com email on 14/4/16
- 5-8. From Consumer Credit (G19) Statistical Release (Financial Accounts of the US).

Other Sources

Disposable personal income data is at <https://research.stlouisfed.org/fred2/series/DSPI>

National Balance Sheet

Of the Commonwealth of Australia, 2012

Most of the data used in this account is taken from The Australian Bureau of Statistics' Annual Year Book of 2012. The pages of the source and the basis of any necessary extrapolation are given in the footnotes. This Year Book may be viewed by Google searching [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/1301.0Publication24.05.121/\\$file/13010_2012.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/1301.0Publication24.05.121/$file/13010_2012.pdf)

Assets	See Note	AU\$ (Billions)
Dwellings	Note 1	3,696.0
Non-dwelling constructions (As given on page 792)		1,727.1
Machinery and Equipment (from page 792)		552.3
Weapons Systems (from page 792)		24.2
Cultivated Biological Resources (from page 792)		26.5
Intellectual Property Products (from page 792)		182.5
Research and Development (from page 792)		83.5
Mineral and Petroleum exploration (from page 792)		53.6
Computer Software (from page 792)		41.6
Artistic Originals (from page 792)		3.7
Inventories:		
Private non-farm	138.1	
Farm	12.7	
Public Authorities	2.4	
Livestock	4.7	
Plantation Standing Timber	9.6	
Total (all from page 792)		167.5
Land (from page 792)		3,785.0
Subsoil Assets (from page 792)		624.3
Native Standing Timber (from page 792)		1.7
Spectrum Availability and Allocation (a communication asset from page 792)		11.2
Permission to use Natural Resources (outside of Australia?) (from page 792)		2.1
Financial Assets with the rest of the World:		
Monetary Gold and Statutory Deposit Reserves	8.2	

Currency and Deposits	103.0	
Securities other than Shares	252.6	
Loans and Placements	149.8	
Shares and other Equity	628.5	
Insurance Technical Reserves	6.9	
Other Accounts Receivable	104.0	
Total (from page 792)		1,253.0
Consumer Durables (from page 792)		269.4
Australian Investments Abroad (from page 792)		387.3
Human Resources (Education and Training)	Note 2	2,160.0
Goodwill	Note 3	1.0
Imports (from page 813)	Note 4	214.2
Total National Assets		11,571.7

Liabilities

(liabilities reflect all claims against the assets listed in a balance sheet)

See Note AU\$ (Billions)

Financial Liabilities with the rest of the World:

Monetary Gold and Statutory Deposit Reserves	4.6	
Currency and Deposits	125.1	
Securities other than Shares	909.6	
Loans and Placements	229.1	
Shares and other Equity	734.6	
Insurance Technical Reserves	2.2	
Other Accounts Payable	29.0	
Total (from page 792)		2,032.2
Foreign Investments in Australia		510.2
Exports	Note 5	247.7
The Issued Money Supply (M3 less “term” deposits) (from Reserve Bank of Aust. D3 Monetary Aggregates for Dec. 2012)	Note 6	805.6
Total National Liabilities		3,595.7

Net Economic Residual Value of Australia if all Liabilities were met **7,976.0**

Notes to the accounts

1. The number of private dwellings is given on page 362 as 8.4 million. The percentage of owner occupied homes is stated as 69% on page 364, which are 5.8 million dwellings. On page 372 the “median estimated value of all owner occupied dwellings in 2009-10” is \$440,000, which values them at \$2,552 billion. It is admitted that a median estimated value is not an average value but the latter is not given.

The 31% of dwellings not owner occupied (2.6 million) may well have a lower average value. Discounting their value down to \$330,000 adds another \$1,144 billion to dwellings value, for a total of \$3,696 billion.

The Year Books’ value of dwellings as given on page 792 (in an incomplete National Balance Sheet) is given as only \$1,567.1 billion which implies an average value of \$186,559. Calculated on historic costs it does not reflect current appreciated values. Only in such locations as remote mining towns with closed mines and almost no employment opportunities, are any homes ever offered at such low prices. This value has been rejected as misrepresentative.

2. Australia ascribes great value to education with total Government, private and household expenditure in 2010-11 being \$94 billion. \$14.8 billion of this was paid for by foreign students, with net expenditure on Australian nationals being \$79.2 billion (from pages 452 and 454).

26% of 25 to 64 year olds have a Bachelor degree or higher, while 70% have matriculated (reached a level where they can attend University if they so wish).

Human resources appreciate in two predominant ways. One is by formal “schooling” type education, and the other is experiential. Those who have finished (pretty much) with formal training and have been practicing mechanics, medicine or bricklaying etc. for ten years are better practitioners for it. Here is an appreciation beyond initial investment. Conversely, those approaching retirement may be seen as having an actuarial depreciation as they approach the end of practicing.

The working life of Australians is approximately 40 years. We have taken the expenditure on “schooling” for a “working half-life”, which is 20 years of expenditure, and appreciated it by 50% for experiential increments, and depreciated it by 10% for actuarial depreciation. So the sums say \$79.2 billion, multiplied by 20, appreciated by 50% and depreciated by 10%. That’s \$79.2 Billion x by 20 (years of expenditure) x by 1.5 (for experiential appreciation), and discounted by 10.0% (divided by 1.1) for actuarial losses = \$2,160 billion.

Statisticians may demur hopefully, as their expertise would be brought to bear upon the matter, however in a case when Human Resources are not acknowledged in a National Balance Sheet at all, any agreed value can only be a plus.

3. If a Nation is in the midst of a civil war, order is abandoned, terrorism abounds, contracts are unenforceable, and destruction is widespread, it cannot be said to have much goodwill value. On the other hand if its relations with its neighbours are rather amicable, civil order is maintained, it is respected for defending other Nation’s rights, the rule of law prevails,

humanitarian aid is a policy, and others have little difficulty in relating to this Nation in their several different ways, this, surely, is a measure of goodwill.

The value given above is nominal. Its inclusion is an assertion that goodwill is a legitimate item in any National Balance Sheet as it represents a true value, though one for which there is no current “best practice evaluation procedure”. All commercial ventures value goodwill, perhaps nations may do likewise? Others are the arbiters of good will towards us, for when you buy a new house, a considerable measure of your happiness is attributable to those in approximation. Were it not for an entrenched reticence to access “imponderable values”, the ABS might have considered goodwill as an asset. A wider debate is required here.

4. On page 813 of the ABS Year Book of 2012 the “total imports of goods on a merchandise trade basis” are given there as \$214.2 billion. These are assets entering the country. Services imported and exported have not been included, as they are not identified, and Financial Assets and Liabilities and other accessed assets may already reflect them.
5. Exports are national assets transferred to foreign nationals. The value attributed is from page 813. Again, services exported are omitted for the same reason as are imported services.
6. The Australian money supply in existence is an internal claim upon products and assets available within Australia. While little appreciated, it is something like the amount of I.O.U's which have been issued as internal claims upon Australian production and assets in the process of organising production. It is the largest liability that Australia has, as foreign financial liabilities (\$2,032.2 billion) have to be offset against foreign financial assets (\$1,253.0 billion), leaving only a net liability to the rest of the World of \$779.2 billion.

No currently available calculation of the money supply, neither M1, M3 or Broad Money is an accurate measure of the current outstanding claims upon our goods and services.

In private correspondence with the Reserve Bank of Australia of 7th September 2017, the question “What partof deposits contained in M3 are currently available for immediate current expenditure?” was answered with “RBA Statistical Table D3 provides some data which may be used to generate a rough estimate i.e. M3 minus term deposits and certificates of deposit.” This suggestion has been followed and applied to data provided at their suggestion from www.rba.gov.au/statistics/tables/xls/d03hist.xls M3 of \$1,517.9 billion at the end of 2012 has been reduced by term deposits and certificates of deposit of \$540.6 and \$171.7 billion respectively.

When taxes are paid to government, the government has a claim upon our goods and services, but government and government's instrumentalities' deposits in Banks, Building Societies and Credit Unions are not counted in M1 or M3. No adjustment to reflect Government's money claims upon the economy have been included in this account.

A fully accurate measure of the purchasing power available from all sources to make claims upon a Nation's goods and services will await, it seems, an intention on the part of Governments to join the common practice of all other large entities, and the application of their will to producing a full, appropriate and accurate set of accounts.

Why a National Balance Sheet?

All corporations produce Balance Sheets and are mandatorily compelled to do so by law. No Corporate Executive or investor would consider himself informed or equipped to make responsible decisions in their absence. The only large entities which spurn to properly and comprehensively do so in accordance with best commercial practice are National Governments, though they act in trust for the interests of all their millions of nationals.

Annual Budgets and measures of gross activity (such as Gross Domestic Product calculations) are inadequate, by themselves, for the purposes of informing those in national decision making authority. GDP is a measure only of activity.

Political practitioners would seem to discount the acquisition of data appropriate to all other large corporate undertakings. The economy is neither a debating theatre, a “one-ups-man ship” trivial opportunity to denigrate political opponents, nor a realm in which irresponsibility is benign. A little attention to detail may be appropriate if the common good for proper real persons is to be the object of administrative decisions.

One of the consequences of incomplete comprehension by those in authority occurs in import/export policy. When our assets in the form of products are yielded up to others two things happen, one is that we have less product available internally. The other impact is financial. We have an asset in the form of foreign currency or reserves, however the exporting company must be paid, so Australian money is issued to pay it, which adds an equal amount to our internal liabilities.

In giving up an asset, either by way of selling exports or other assets to foreign parties, we acquire both an asset (foreign exchange) and an equal liability in the form of an increase in M3 (internal money claims upon our economy). One asset less, one asset more, and one liability more, all of the same value, has a negative impact on a national balance sheet to the same value. We are poorer to the full value of the transaction. An absence of national balance sheets has precluded an appreciation of this by both Governments and the public.

Of course importing has the reverse effect. We acquire an asset (the product), we lose an asset (the foreign exchange) and we lose a liability by reducing M3. We are richer (in asset terms) by the amount of the transaction.

If the purpose of exporting is importing, and this is done, it changes perspectives and usually reflects an exchange of products which can be advantageously produced in a country, for those which are more difficult or impossible for it to produce.

A trade surplus of exports can only be seen as “favourable” while the internal money supply is considered an asset. It isn't. If more purchasing power is required internally there are better ways of doing it. It is, after all, only a matter of creating more liabilities against ourselves. Individuals can do this by issuing I.O.U's; governments do it, mostly through their Chartered Banks, by creating money.

With this knowledge, international competition for each other's markets, which has tended towards war historically, might relax into an exchange of surpluses to our mutual benefit.

Historical cases of rampant inflation (Germany between the wars; Zimbabwe around the early 2,000s) are chronic cases of excess liabilities.

A net asset base of \$7,976.0 billion in a population of 23 million, equates to \$346,782.60 each. This is a credit worthy situation for Australians, and if a deficiency of purchasing power to consume the available and desired goods and services is evident, it is one against which an increase in the money supply may be properly issued, up to the extent of the deficiency.

Limitations

A National Balance Sheet identifies and quantifies a nation's credit worthiness. To do this honestly it must list all of a Nation's assets (items of advantage) and all claims outstanding against those assets at that time. It does not, and cannot, be made to identify the amount of credit which should be issued to finance productive endeavours, though an upper theoretical limit to this is certainly indicated.

Since only a part of assets are on the market and for sale at any time, increasing credit to the full extent of theoretical assets would be wildly inflationary and destructive of public confidence. The optimum issue of credit for production is to be discovered by other means, though the context of increased credit for production is certainly defined.

All bank loans add to the money supply and are issued against the National Balance Sheet, even when a Nation neglects to do one.

The greatest contribution to public understanding from National Balance Sheets may well not be in their bottom lines, but rather in bringing understanding to what, in fact, constitutes a national asset or a liability. Money, which is always a personal asset, is also always a claim upon national assets, and any such claims are liabilities. This simple realisation may well become a point of departure from all current economic conceptualisations.