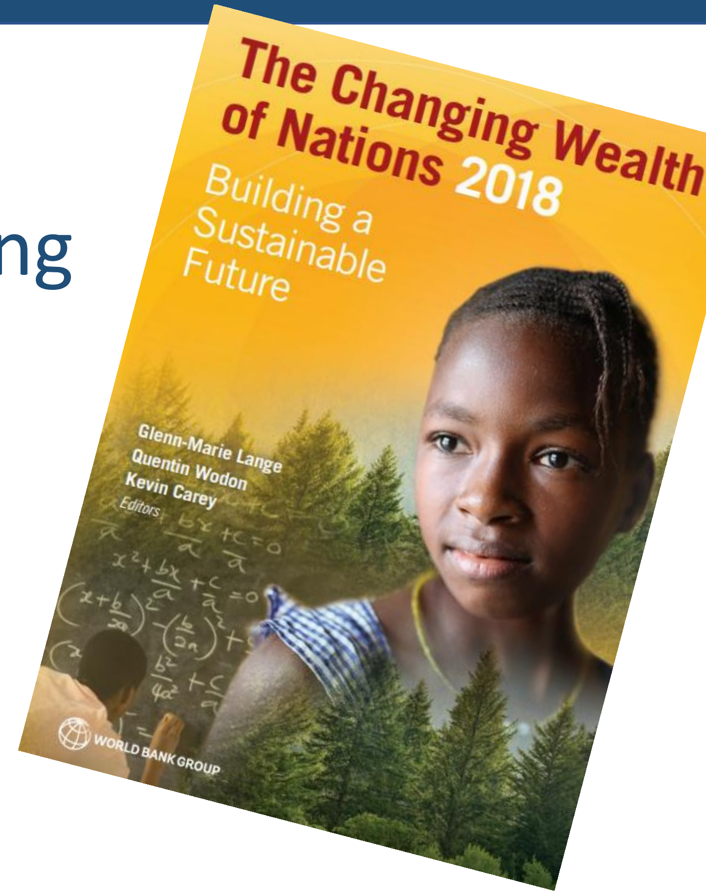
Discussion of:
Wealth Accounting



Eli P. Fenichel

Yale School of Forestry and Environmental Studies

Wealth Accounting in a Nut Shell

Wealth accounting is about maintaining a balance sheet – conceptually in the 2008 SNA.

The boundary of the account is what makes inclusive or comprehensive wealth inclusive or comprehensive.

- "standard" national balance sheets are a subset
- Lots of natural capital is supposed to be on national balance sheets (per 2008 SNA)
- The really boundary question has to do with net present value of what?

There is a strong conceptual connection between Net National Product and changes in wealth and changes in welfare.

- Practical break down has to do with boundaries,
- Boundaries are a form of equity weight in the social welfare function.

Boundaries for Balance Sheets & Wealth Accounting

"The main objective of the system of national accounts is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and **evaluating the performance** of an economy." – SNA 2008

Jorgenson (2018) "While the GDP was intended by its originators as a measure of production, the absence of a measure of welfare in the national accounts has led to widespread misuse of the GDP to proxy welfare. Measures of **welfare are needed to appraise the outcomes of changes in economic policies and evaluate the results**."

Hulten (2006) "when it comes to capital, however, it more a question of what to do than how to do it."

The importance of inclusiveness/ comprehensiveness

Assets are stores of wealth that pass opportunities from one period to the next
- Measuring the abilities passed-on to future generations to meet their needs.
- Assets are future inputs to production – the key what (whose) production counts.
- Boundaries are equity weights.

National accounts are meant to reflect general equilibrium.
- The accounting prices for produced assets will be wrong if there is substitution or complementarities between produced and natural assets and the natural assets are ignored.
- Lots of important services from natural capital.
- Need to understand how people (institutions) respond to asset changes and this should be reflected in prices.

If the sequence of accounts is meant to provide information about the "ends" of policy as well as the "means" for actions, then the balance sheet should be able to connect to production, expenditure, income, and consumption accounts – even if those four accounts have different boundaries.
- Challenge: reflect actual non-market value, not willingness to pay for a hypothetical change.

My opinion of where to go with wealth accounting

Frame as simply **completing broad balance sheets**

- Create aggregates showing multiple boundaries.
- Emphasize the balance sheets "supports" all other accounts.

Focus on the balance sheet data and present as **digital dashboard** that

- Allows users to adjust boundaries and see how they matter
- Regular updates by countries with capacity
- Drilling down to local and micro-level data for subnational accounts
- Shift focus away from a single aggregate.
- Enable more sophisticate valuation methods & and show where the data are missing for these methods.

Greater focus on **changes in wealth**

- Highlighting appropriate index number theory.

Put more thought into **access to capital**

- General focus on per capita - not really sufficient (Jorgenson 2018).
- For some stocks, services scale with population.