

Money and the Measurement of Total Factor Productivity: Implications for the SNA

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Paper Abstract:

Firms have greatly increased their holdings of monetary deposits since the mid-1990s. These monetary holdings have an opportunity cost; i.e., allocating firm financial capital into monetary deposits means that investment in real assets is reduced. Traditional measures of Total Factor Productivity (TFP) do not take into account these holdings of monetary assets. Given the recent large increases in these holdings in the U.S. and other advanced economies, it is expected that adding these monetary assets to the list of traditional capital services will reduce the TFP of the business sector in advanced economies. We measure this effect for the U.S. aggregate (corporate and non-corporate) business sector, noting the implications for the System of National Accounts of this expanded definition of capital services.