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Is the Concept of Valuables Valuable?

Itsuo Sakuma

For additional information please contact:

Name: Itsuo Sakuma
Affiliation: Senshu University, Japan

Email Address: sakuma@isc.senshu-u.ac.jp

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Itsuo Sakuma
School of Economics
Senshu University
JAPAN

For additional information please contact:

Itsuo Sakuma
School of Economics
Senshu University
2-1-1, Higashimita, Tamaku, Kawasaki, 214-8580, JAPAN
E-Mail: sakuma@isc.senshu-u.ac.jp
FAX: 81-44-900-7815
Telephone: 81-44-911-1018

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Itsuo Sakuma

Senshu University
sakuma@isc.senshu-u.ac.jp

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Abstract

In the SNA 1993, the third category of capital formation was introduced, that is, acquisitions less disposals of valuables. As a stock category, valuables are produced goods of considerable value that are not used primarily for purposes of production or consumption but are held as stores of value over time. Government of Japan has not introduced this new concept yet not least because this is inconsistent with the concept of capital in economics. In fact, in economics, capital or capital goods are defined as the kinds of inputs that are themselves outputs of some production processes. The reduction in the coverage of the concept of monetary gold (gold as a financial asset) in the SNA 1993 as compared with the SNA 1968 may be regarded as one reason behind the creation of the new category. In fact, while in the 1968 version of the SNA, monetary gold can be held by any sector, in the SNA 1993 as well as the SNA 2008, monetary gold can be held by monetary authorities only. Gold held by other institutional units come to be regarded as a typical example of valuables. However, taking into account of the fact that art objects, which are another typical example of valuables, are considered to be indispensable inputs to the production processes of museums and also the fact that they need conservation and restoration processes regularly, the description of their economic activities in national accounts may be highly distorted by the introduction of the concept. Solutions are sought.

Introduction

In the SNA 1993[1], the third category of capital formation was introduced, that is, "acquisitions less disposals of valuables." As a stock category, valuables are produced goods of considerable value that are not used (primarily)[2] for purposes of production or consumption but are held just as stores of value over time. Valuables include gold bullion and coins owned by institutional units other than monetary authorities as well as those owned by monetary authorities not as reserve assets. Other precious metals held solely as stores of value are also included in this category irrespective of which institutional sector the unit holding them belongs to. In addition, they include works of art, antiques, precious stone, fine jewellery as well as other collections of considerable value.

Clearly, the concept of valuables is not consistent with the definition of capital or capital goods in economics textbooks. Thus, Samuelson's famous textbook writes: "A Capital good differs from the primary factors in that it is an input which is itself the output of the economy."[3] The items that are not used in productive activities are never deemed to be capital in economics. Government of Japan has not introduced the concept yet not least because of this.

In the present paper, the issues created by the introduction of the new concept will be addressed and solutions are sought. In the first place, a thorough examination of the concept will be done in the section that follows immediately. In that section, it will be shown as well that the concept seems to be a by-product of the harmonisation process between the SNA and the *Balance of Payment Manual* (BPM). In the next section, supposedly one of the most damaging aspects of the introduction of the concept into the SNA will be addressed. That is, because the art objects held by museums are considered to be valuables rather than fixed assets, their productive processes must be described without referring to such art objects at all. This sounds quite queer because their main activities are to show their collections to the public. It is worth noting that conservation and restoration work often conducted for museums' collections looks rather similar to maintenance work for ordinary capital equipment. Moreover, art objects need major restoration work in some cases just as capital equipment needs large scale repair (capital repair) .

Then, what should be done? At least, as far as works of art are concerned, they should be regarded as fixed capital rather than valuables as they were in the SNA 1968.

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[1] Commission of the European Communities et al.[1993].

[2] As far as conceptual consideration is concerned, the adverb "primarily" can be dropped.

[3] Samuelson [1967, p. 48].

[4]This is one of the two *core* proposals of this paper. Another *core* proposal is to treat all gold held as stores of value in the same way. It means the return to the practice in the SNA 1968. In the current SNA=BPM treatment, sale of part of gold bullion held as reserve assets by the monetary authority to a private institutional unit or purchase of gold bullion by the monetary authority from other institutional units must be recorded with too minute reclassification procedures in national accounts statistics. The two core and other proposals for the treatment of items included in the valuables category will be stated in the last section. Lastly, some closing remarks will be given.

1. The concept of valuables revisited

According to the paragraphs 10.13, 6,214, and 10.149-154 in the SNA 2008, valuables are produced goods of considerable value that are not used for purposes of production or consumption but are held solely as stores of value over time. Valuables are expected to appreciate or at least not to decline in real value. In addition, they are not expected to deteriorate physically over time under normal conditions. They consist of (1) precious metals and stones, (2) antiques and other art objects and (3) other valuables including fine jewellery fashioned out of precious metals and stones, and coins, stamps, and other collections, etc. In contrast with monetary gold, valuables may be held by all sectors of the economy. Characteristics of valuables given above briefly will be subject to close scrutiny.

To begin with, valuables are produced goods. However, they may not have been regarded as valuables when they were produced. Thus, typically, antiques were originally various consumer durables when they appeared at first. Old coins of historical importance were once currencies (not even real objects but financial assets), which were very originally produced goods when they first appeared out of the manufacturing process. In these examples, a long passage of time makes ordinary produced goods valuables.

Secondly, they are of considerable value. Again, they may not have been of considerable value when they were produced. For example, Hokusai's *ukiyoe* wood prints must have been quite cheap when they first appeared and Europeans found them in packing materials. In any case, what is "of considerable value" must be defined. Apart from precious metals, one possibility may be to define it in terms of whether a particular item is worth being included in museums' collections or not.

Thirdly, they are never used for production. Because of this characterisation, valuables cannot be regarded as "capital" in a strict sense of the word in economics.

[4] United Nations [1968].

Therefore, the introduction of the concept of acquisitions less disposals of valuables (as one of the three categories of capital formation) makes national *economic* accounts something separated from economics.

In addition, it is assumed that they never deteriorate physically over time *under normal conditions*. Therefore, they are never consumed for any purpose. So, for the valuable items, capital consumption need not be recorded. However, this assumption should be questioned. In fact, as far as works of art are concerned, much restoration and conservation work is done in museums and elsewhere. This fact should not be ignored under the wording "under normal conditions."

For museums as producers, clearly, art objects are most important factors of production. Actually, they are rather similar to ordinary capital equipment items such as machines for manufacturers. Conservation and restoration work for paintings and sculptures is like maintenance work for machines. Moreover, large scale restoration work needed in some cases, for example, for large painting works including wall paintings corresponds to capital repair in the case of ordinary capital assets.

Besides that, the value of a specific piece of, say fine jewellery is subject to obsolescence, which is one of the most important factors of capital consumption.[5] Other carrying costs may be involved as far as valuables are real objects after all. For example, insurance costs against damage, theft, and so on as well as keeping items in question in a safe condition may be included in such costs. Another point may be that transfer costs may be involved with transactions in valuables and they may be considered to be fixed capital formation that is subject to capital consumption. However, note that the same type of costs may be involved with financial assets and they are regarded as consumption (intermediate or final). This paper will not touch upon this transfer costs issue.

Fourthly, they are *stores of value*. Note that being stores of value is a characteristic of assets in general.[6] It does not mean that its value will appreciate definitely or never depreciate. A more precise characterisation may be that the only function of valuables is being stores of value. Their physical presence is simply ignored at least in terms of statistical description.[7]

More importantly, they are held because they are expected to get appreciated at least relative to the general price level. However, except for bubble situations, it is not so likely that this expectation is realisable. Often, the market value of art objects or

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[5] Kuznets[1973, pp.155-158].

[6] See "Glossary" in the SNA 2008.

[7] They have no presence in World 1 except for their *signifiant* aspects. See Sakuma[2012, forthcoming] and references listed there for Popper's three words.

antiques is subject to significant variation over time, upward as well as downward, which may be greater than that in general price level.

Sixthly, they are regarded as alternative forms of investment. This newly appeared rationale for the concept was provided in the paragraph 10.149 in SNA 2008.[8]The paragraph writes: "At various times, investors may choose to buy gold rather than a financial asset and pension funds have been known to buy 'old master' paintings when the prices of financial assets were behaving in a volatile manner. Individuals (households in SNA terminology) may also choose to acquire some of these items knowing that they may be sold if there is a need to raise funds." However, except for precious metals, for which market prices are readily available almost daily, it is not likely that proper price data for many valuable items are available statistically. Works of art etc. are recorded at their historical cost in museums' accounting records as well as business accounting records of corporations. So, this rationale for the concept will not work so well.

The table below shows an indicative categorisation of valuables shown in paragraphs 15.142-154 in the SNA 2008 with some descriptions.

Table 1: Indicative Classification of Valuables

Precious metals and stones
Precious metals (gold excluding monetary gold, silver, and platinum group metals) and precious stones (diamond, ruby, sapphire, emerald, etc.). When they are fashioned into fine jewellery, they are included in another valuables category. Old coins of historical importance should be excluded in principle even if they are made of gold or silver. When precious metals and stones are held by enterprises for sale or use as inputs into processes of production, they are inventories. Note that precious metals held in the form of unallocated metal accounts are financial assets.
Antiques and other art objects
Antiques of considerable value as well as paintings, sculptures, etc. excluding those held by enterprises for sale. It is explicitly stated that museum exhibits are included in principle.
Other valuables
Other valuables not elsewhere classified including such items as collections of stamps, coins, china, books etc. that have a recognised market value and fine jewellery, fashioned out of precious stones and metals of significant and realizable value.

[8] European Commission et al. [2009].

Finally in this section it will be shown that it is highly likely that the appearance in the SNA 1993 of the concept may be a by-product of the harmonisation process between the SNA and the BPM (Balance of Payments Manual). [9]In fact, in the SNA 1968, gold bullion and coins could be held as financial assets by any institutional unit or sector. [10] On the contrary, the BPM recommended that "monetary gold," that is, gold as a financial asset rather than gold as money can be held only by monetary authorities or other units authorized by them as reserve assets. It was thought that this difference should be eliminated to harmonise the two systems.

In the harmonisation process so far, in some cases, the SNA took the lead and in other cases, BPM took the lead in defining the rules to be applied in both systems. [11] For example, in the case of the treatment of reinvested earnings, BPM took the lead, while in the case of concept of "transfers," BPM accepted the SNA rule of distinction between capital and current transfers. In the present case of monetary gold, the SNA 1993 accepted the BPM principle so that gold bullion and coins held by the institutional units other than the monetary authority as well as those held by the monetary authority but not as reserve assets are no longer among the list of financial items. The introduction of the category "valuables" provided a *refugee camp*, so to speak, for those gold bullion and coins.

In this respect, the following consideration made by Roy Harrod [1969, pp.49-50] may be interesting: "The trouble is that it is not clear that all the non-bank demand for gold is for non-monetary purposes. Some of the non-bank demand is undoubtedly for industrial use. But some gold may be desired for hoarding. And in this point a subtle distinction can be drawn between those who hold it simply because it is *a valuable object*, just as they might hold diamonds or rubies, and those who choose to hold it in store precisely because it is a monetary medium (Italic by the quoter) ."

Once formulated, this "refugee camp" category pulled together various border-line items between real and financial assets and those between (intermediate and final) consumption and capital formation, and so on.

However, this restriction on monetary gold may be rather inconvenient for national accountants. Because the concept of reserve assets is one of the five functional categories in BPM, it is somewhat difficult to enforce the horizontal double entry involved without introducing rather cumbersome procedures when a transaction between the monetary authority and a private institutional unit in gold bullion or coins

[9] BPM3, 4, 5, and 6 are International Monetary Fund [1961, 1977, 1993 and 2009].
[10] See Table 7.2 as well as the standard accounts for institutional sectors in chapter 8 in United Nations [1968].
[11] See paragraph 26.13 in the SNA 2008.

takes place. In addition, it may be worth noting that whether those gold items are described as monetary or not, monetary authorities manage their portfolios through transactions in gold markets, where private players as well as monetary authorities take part.

Although Harrod's observation above focused the dividing line between money and non-money items, another focal issue may be how to delineate the line between financial and real objects. It is worth noting that money (or even broad money) is not the concept of which any definition is given in the SNA. [12] Actually, the term "monetary gold" should be read as gold as financial assets rather than gold as money.

Financial assets may be characterised by the fact that (1) the physical presence of the item involved is ignored in terms of accounting rules and that (2) they are not related to production and consumption in the economy so that (3) they are identified with stores of value (namely, expected cash flows realisable through market transactions or other processes), and therefore (4) financial flows (flows related to financial items) can be found only in the financial accounts (accounts for appearance and disappearance of financial items and accounts for stock of financial items). Thus, once reclassified into financial items, gold bullion and coins will stay in these accounts if they continue to be held by monetary authorities. This segregation property may be the most salient feature of financial items as far as national accounting treatment is concerned. To make the segregation more complete, the treatment of "monetary gold" should be changed so that ever holding of gold solely as stores of value may be treated in the same way.

2. Toward accounting for cultural heritage

One of the most damaging aspects of the concept of valuables is that of the treatment of cultural properties. Although cultural properties include among others works of art of historical and artistic importance as well as historical buildings, the concept of cultural properties has much wider coverage.

Thus, the concept of cultural properties defined by "Law for Protection of Cultural Properties" in Japan, for example, provides six sub-categories as follows:

1. Tangible cultural properties (constructions, paintings, sculpture, crafts, calligraphic works, classical books, and ancient documents of historical and/or artistic value as well as archaeological artefacts and historical materials of academic importance);

2. Intangible cultural properties (Kabuki, Noh, Bunraku, etc.);

[12] See chapter 27, paragraph 27.10 in particular, in the SNA 2008.

3. Folk cultural properties (items, tangible and intangible, indispensable for understanding tradition in the daily lives of the people, including Kagura dances, Dengaku dances, and other folk performing arts as well as clothes, tools, and instruments used in related occasions);

4. Monuments (historic sites such as Himeji castle, etc., places of scenic beauty, such as Kenrokuen garden, etc., and natural monuments such as Japanese giant salamander);

5. Cultural landscape (landscapes that have evolved in association with the modes of life of people such as terraced rice fields in Warabino in Saga prefecture);

6. Groups of traditional buildings (groups of buildings with surroundings which form beautiful historical scenery such as Historic Villages of Shirakawa-go and Gokayama).

Of these cultural properties, the government of Japan (Minister of Education, Culture, Sports, Science and Technology) designates important items in categories such as “Important Cultural Properties,” “National Treasures,” “(Designated) Historic Sites,” and so on to give priority of protection. The number of Important Cultural Properties is 12,755 and that of National Treasures is 1,081 as of October 1, 2010.[13]

In the present paper’s context, the main concern naturally lies in the category “tangible cultural properties” of which Important Cultural Properties as well as National Treasures are designated by the government. However, there are some tangible items included in other categories as well. Within the conceptual framework of the SNA, some of them may be treated as valuables while some other items involved may be “historical monuments” another term in the SNA that are treated as fixed assets.

In what follows in this section, it is stressed that the SNA does not succeed in accounting for tangible cultural heritage. For this purpose, the points already made related to the issue will be restated. After that, some viewpoints will be added.

Firstly, from the point of view of identifying the production processes of the museums, paintings and sculptures and other collections in museums are main factors of production of museums. Secondly, they should be treated as fixed capital because they are durable and produced goods used for production processes of museums. It should be worth noting that works of art such as paintings and sculpture are deemed to be fixed capital in the SNA 1968[14] whenever they are held by producers (except for owner-occupiers) .

[13] See Agency for Cultural Affairs [2011].
[14] See Table 6.3 in the SNA 1968.

This principle of the SNA 1968 could be understood well when paintings and sculpture might be considered to be part of a building in the same way as lighting apparatus or furnishings. Clearly, wall paintings are indispensable part of building. Then, why are paintings hung on the wall not?

Thirdly, the outlay on conservation and restoration for works of art is similar to expenditures on maintenance of typical fixed assets, say, machines. In addition, in some cases, the outlay on conservation and restoration of works of art may be quite large in sum and similar to capital repair in the case of machines. Capital consumption needs to be estimated for historical monuments including Atomic Bomb Dome in Hiroshima. In fact, without large scale restoration from time to time, it is believed that it will collapse sooner or later. On the contrary, valuables are the capital category that is immune from capital consumption. Is that reasonable?

Many governments assume responsibility on their own for the protection of cultural heritage even if they are privately owned. For example, the government of Japan has such responsibility under "Law for Protection of Cultural Properties." Thus, if the cost of conservation and restoration of a particular important cultural property is unbearable for the private entity who owns it, the government must support the activity by subsidising it. Why does that do so? If the cultural property is regarded as an alternative form of investment, it is just nonsense. It is because every generation has responsibility of handing over the cultural heritage which it keeps at the present stage to the next generation.

The present SNA practices do not see this kind of aspects involved in the issue. Therefore, this paper's first proposal should be to consider such art objects etc. as fixed capital. Art objects, etc. outside museums as well as those inside museums should be treated in the same way if they are of considerable value so that it may be proposed that even if they are owned by households, the actual expenditures on the conservation and restoration involved should be deemed to be those related to the productive activities of the households. As a convention, it may be suggested that the relevant outlay made by the households should be included in the intermediate consumption of the owner-occupiers. Note that what is "of considerable value" is defined as one possibility in this paper in terms of whether a particular item is worth being included in museums' collections. Designation or registration by the government or local authorities may be regarded as a sufficient evidence for being "of considerable value."

As already suggested, the coverage just proposed in this paper is very restricted one from the viewpoint of administrative or policy concern related to the protection of cultural properties as a whole. In this respect, some kinds of satellite accounting for cultural heritage should be proposed. However, this may well be a theme for another paper.

3. Some Proposals

There are two core and some other proposals. One of the two core proposals was just given in the previous section. It is restated here as follows:

> CORE PROPOSAL I
>
> Works of art, antiques, precious stones, fine jewellery, and other collections of considerable value should be regarded as fixed assets if they are held by museums. Museums are productive units in which these assets play the role of main fixed capital factors involved in their productive activities.

The treatment of the same items held by the units other than museums may be left to compiling countries. A proposal may be that they should be treated in the same way because the upkeep of works of art, etc. is clearly productive.

If possible, capital consumption should be estimated for these works of art, etc. because of the reason already given. However, because it may be difficult to estimate it, some degree of freedom may be given. Note that owners of works of art very often record them at historical cost without recording capital consumption. Works of art, etc. of not so considerable value may be regarded as consumer durables if owned by households.

CORE PROPOSAL II

> Every sector or institutional unit can hold gold as financial assets ("monetary gold" in the terminology of the SNA=BPM). This means the return to the practices in the SNA 1968.

The national accounting practices are based on quadruple entry system so that both parties to the transaction in a particular item should recognise it in the same way. As already mentioned, in the current SNA=BPM system, only monetary authorities can hold gold bullion and coins as financial assets.

As for other precious metal items (silver, platinum, palladium, etc.), the present paper's (non-core) proposal is to treat them in the same way as gold. For, their characteristics are somewhat similar to gold as far as the segregation property mentioned above is concerned. In addition, they are easily realisable.

Closing remarks

Central banks spend a tidy sum of money for holding gold bullion in their vaults in order to protect it from any damage and not to get it stolen. It is also the case with financial institutions in general. Safekeeping something is financial institutions' typical activity. In their buildings, there are particular structures like strong-rooms designed for the purpose.

This kind of activity may be found to some extent for any institutional unit holding valuable items. However, they are not regarded as principal or secondary activities. At best, they are regarded as ancillary. In the case of households, they may not be regarded as productive in the sense of SNA.

The observation made above may pose another difficulty involved in the concept of acquisitions less disposals of valuables as alternative forms of investment. The rate of return associated with valuables will be overstated because of the ignorance of related carrying costs.

Suppose a quasi-corporation whose only activity is holding the valuable item in question. It is possible to consider its net worth. The institutional unit that holds the quasi-corporation may be considered to have the equity equal to the net worth. The rate of return can be calculated with respect to this activity or quasi-corporation. In the author's view, the concept of valuables does not see the activity but an item involved only. Sometimes it is less problematic to ignore the activity in question but sometimes it is not. As already discussed, as far as works of art and other cultural properties are concerned, this ignorance is deemed to be intolerable.

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