

Abstract for “Public Debt in the Perspective of National Accounting”

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Since the global financial crisis of 2008-2009, public debt in advanced economies has increased substantially. High levels of debt in advanced economies are a relatively new global concern, after decades of attention on debt levels in developing and emerging markets. Three Eurozone countries, Greece, Ireland, and Portugal, have turned to IMF and other European governments for financial assistance in order to avoid defaulting on their loans. There are also concerns about the sustainability of public debt in Japan and the US and, more recently, also in the major European countries. To date, many advanced-economy governments have embarked on fiscal austerity programs, such as cutting spending and/or increasing taxes, to address historically high levels of debt.

In the system of national accounts, the public debt is primarily recorded in the balance sheet of the general government. A balance sheet is a statement, drawn up at a particular point in time, of assets owned and of liabilities outstanding. Although not all the countries have balance sheet in their system of national accounts, almost all the OECD countries submit so called financial balance sheets to the publication known as National Accounts of OECD Countries. The financial balance sheet of an institutional sector or the rest of the world (ROW) include only financial assets and liabilities. The balancing item of the financial balance sheet is referred to as financial net worth, which is obtainable by subtracting the total liabilities from the total financial assets of the sector. If the financial net worth is positive, the sector is a net creditor; if it is negative, the sector is a net debtor; the sum of financial net worth across sectors including ROW is zero.

At the end of 2011, 21 out of 28 OECD countries have public debt; that is the financial net worth of the general government sector is negative. The financial net worth of households is positive while that of non-financial corporations is negative in all 28 OECD countries. That means, in the macro economy, households are primary lenders while non-financial corporations are primary borrowers. However, it is noteworthy that in many of the advanced countries including France, Germany, Japan, UK and US, the household lending surpasses the corporate borrowing; for example, in the Netherlands, the household lending is four times greater than the corporate borrowing. These countries have public debts without exception. Some of these countries, such as Japan, lend surplus funds to ROW. Other countries including the US borrow heavily from ROW. In the latter case, the external debt increases as the public debt swells; this phenomenon is referred to as twin deficit or rather twin debt. However, this symptom is not unique to the advanced economies. Greece, Ireland and Portugal also have the same symptom.

The SNA manual asserts that, in principle, net lending or net borrowing is measured identically in both the capital and financial accounts. However, it also acknowledges that, in practice, achieving this identity is one of the most difficult tasks in compiling national accounts. This problem arises because the financial account is directly derived from the balance sheets, rather than indirectly from the supply and use tables that depict the transactions of goods and services. Net lending or net borrowing in the financial account is obtainable from the national balance sheets as an increment of financial net worth during an accounting period. In other words, financial net worth is the accumulation of net lending/borrowing of the

past. Therefore financial net worth is a good indicator of saving-investment imbalances; positive financial net worth means excess saving while negative financial net worth implies excess investment.

According to the IMF World Economic Outlook, at the end of 2012, Japan is estimated to have the highest ratio of gross general government debt relative to GDP, at 237% of GDP. The second highest was Greece, at 171% of GDP. Estonia had the lowest level, at only 9% of GDP. The US ranked sixth among advanced economies, just after Ireland and before Singapore, with an estimated gross general government debt of 107% of GDP. It is a well-known fact that Japan has been suffering from huge public debt after 1990 when an economic bubble collapsed. In Japan, the financial net worth of non-financial corporations turned to positive in 1998 and remained so since then indicating the reluctance of business to invest. The US is facing the same problem after the collapse of the residential bubble of the early to mid-2000s. Since 2009, the financial net worth of non-financial corporations remains to be positive and the government deficit is ballooning. Since the household sectors have positive financial net worth in both countries, the governments have no choice but absorb the surplus saving of the private sector.

A government may lower high levels of public debt through austerity or fiscal consolidation, which generally refers to policies that reduce the government budget deficit. These include tax increases, spending cuts, or some combination of the two. Some argue that austerity programs are effective at reducing the debt by directly targeting the cause of high debt levels: government spending that is too high or tax revenue that is too low. However, in the perspective of national accounting, the real problem is the dearth of investment and saving glut in the corporate sector; it is apparent that the public sector alone cannot solve the problem.