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Comparative National Balance Sheets: A Study of Twenty Countries, 1688–1978. By RAYMOND W. GOLDSMITH.
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Although it is far more exciting to develop or learn a new theory than to provide better data, theories seldom emerge in a vacuum. Rather, they typically originate from puzzles that economists perceive as they are confronted with stylized facts that do not seem to accord with received theory. Those stylized facts, in turn, are often generalizations that emerge from the hard, and usually underappreciated, empirical work of scholars such as Raymond Goldsmith.

The book under review represents Goldsmith's effort to bring together data for 20 countries for as long a time period as possible to understand national balance sheets. It builds on earlier work by Goldsmith and others and systematizes all that is known about the structure of wealth across time and countries, insofar as the author judged data to be comparable and reliable enough to warrant comparison.

The 20 countries include most of the larger and developed OECD countries, 13 in all. Two other countries, Israel and South Africa, are classified with the OECD countries as developed market economies. Goldsmith reasonably believes that these 15 countries' balance sheets represent a sufficiently high fraction of the wealth of developed market economies that they can be taken as a reliable estimate of the global total for this group. The only centrally planned developed country included in his study is the USSR, but he believes (p. 11) that developed Eastern European countries are sufficiently like the Soviet Union in structure that it can be taken as representative.

For developing countries, the situation is less satisfactory, as Goldsmith is at pains to point out. The sample on which he bases his global estimates for market-oriented developing countries is confined to India and Mexico. For centrally planned developing countries, data for Hungary and Yugoslavia are available for the period since World War II; for purposes of obtaining an estimate for all centrally planned developing countries, Goldsmith assumes that the asset structure of China (which accounts for an estimated seven-eighths of the gross national product of the centrally planned developing economies) was similar to that of the Soviet Union in 1928.

Coverage over time is somewhat more problematic. The title is misleading in that, for most purposes, Goldsmith's estimates start no earlier than the benchmark year 1850. Even then, they are based on only five countries for 1850 (the United States, the United Kingdom, France, Germany, and Italy) and eight countries for 1875 and 1895 (the five covered for 1850 plus Denmark, Norway, and Switzerland). Thus results for early years are critically dependent on the precise set of countries for which data are available, even among the developed market economies.

In the light of the difficulties and the painstaking efforts required to obtain even these estimates, the profession owes Goldsmith a vote of thanks. The results (although understandably not all the descriptions of the methods used) make fascinating reading. Virtually all estimates are expressed as a percentage of total national wealth in an effort to provide the reader with comparability: this has both its virtues and its drawbacks, a topic to which I return below.

Many of Goldsmith's results—for example that financial intermediation increased rapidly in the early stage of development but seems to have been completed in the now-developed countries by around the turn of the century—accorded with my expectations and were generally consistent with the "stylized facts." Even then, documentation of these phenomena is useful in itself, and estimates of the orders of magnitude are of interest. The reader is provided with a concise overview of these results in chapter 1.

But there are also some findings that are mildly surprising, at least to me: (1) Land and agricultural assets, which used to account for over 40 percent of wealth a century or more ago, now account for less than 10 percent (but much more in Japan, presumably because its relative scarcity raises the price: is the demand for land as an asset price inelastic?). (2) The stability of the structure of the planetary balance sheets, at least since 1950, is at first glance surprising: "tangible" assets accounted for 58.1 percent of planetary assets in 1950 and dropped only slightly, to 57.4 percent, in 1978 (but see below). (3) Equally surprising, for the developed market economies, total tangible assets (where other assets are financial) fell from 73.5 percent of total assets in 1850 to a low of 46 percent in 1939 and since that time increased to 50.5 percent by 1978.

To me, however, perhaps the most interesting and also puzzling of Goldsmith's results were the estimates of growth rates of real national assets and national assets per head (tables 9 and 10). Japanese real national assets are estimated to have grown at average annual rates of 2.8 percent from 1876 to 1913 and 2.6 percent from 1914 to 1950. While the latter is quite plausible in view of the events of that period, an estimate that overall growth was less than 3 percent a year for the full century (and that, therefore, real capital per head grew at an even slower rate) seems somewhat slow. Estimates for India are even more puzzling, possibly even including a typographical error since real assets are estimated to have decreased at an average annual rate of 3 percent from 1951 to 1965, while per capita assets rose 3.7 percent annually!

Throughout the volume, Goldsmith sticks closely to providing the reader with information about his methodology and with the data. There is virtually no effort made to interpret the data. In one sense, this "unexpurgated" presentation of the data is a strength, but in another, it is a major weakness. As already mentioned, except for the estimates of the growth of real national wealth just cited, all estimates are made as a percentage of total wealth. Wealth is defined as the sum of financial assets and real assets, and the higher the fraction of financial assets, the higher is the assumed "financial intermediation." There is no systematic treatment of why the distribution of this particular total, rather than either absolute magnitudes or real physical assets only, is the focal point of interest over a century of rapid growth in the international economy.

Likewise, financial and real assets are added together uncritically; the reader remains distracted wondering how that ratio should behave over time and what a "net" measure would be. One could, for example, assume that "net" financial assets represent the value of financial services and that "gross" financial assets represent the claims against physical assets. Under this interpretation, it would not be meaningful to measure national wealth as the sum of real and financial wealth for many purposes; national wealth would consist of the value of physical assets (presumably as capitalized in financial markets) plus the present value of the earnings streams generated by financial intermediation and human capital. Financial assets would represent claims on the earnings streams of physical assets. These issues are not considered explicitly by Goldsmith.

One example of the difficulties encountered by failure to come to grips with this conceptual issue will illustrate. Goldsmith's careful discussion of methodology ranges component by component over items that are conceivably wealth. One such item is unfunded pension funds (p. 86), which are large especially in the United States. But Goldsmith regards omission of these claims as being on the same conceptual level as omitting a measure of human capital, whereas under the net-gross distinction discussed above, they are entirely different: the omission of human capital is serious if one wants to estimate "real wealth," while the omission of unfunded pension funds would be warranted under the "net" definition. Although Goldsmith discusses the practical reasons why measurement of the value of human capital is not feasible, the use of a distribution of assets as a percentage of the sum of financial and physical is not discussed.

Along a similar line, Goldsmith expresses mild surprise at the similarity of the distribution of global assets in 1950 and 1978, although he does not analyze the phenomenon. Yet if one examines the list of countries included in his analysis, what is noteworthy is the absence of any large rich oil-exporting country. And if one were to hazard a guess as to the shift in the distribution of world wealth between 1950 and 1978, one would guess that until the early 1970s there was a shift in favor of OECD countries and that during the 1970s there was a shift away from them toward the wealthy oil-exporting countries. That this omission is not noted and is left to the reader to infer for himself is symptomatic of the difficulties that arise in the absence of analysis.

It is the height of ingratitude, when receiving a gift, to ask for a more elaborate one; Goldsmith has given the profession the gift of a far more systematic set of estimates of national balance sheets than it hitherto had. Now that the gift is received, one hopes that others in the profession will rise to the challenge and mine the data in the expectation that more analysis will increase knowledge further still.

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