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Net Operating Surplus for Government-Owned Assets: The Case for a User-Cost Basis, and Preliminary Annual Estimates

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This essay argues for a full-cost accounting of fixed assets owned by governments. Present SNA practice countenances capital consumption only, but not net operating surplus. Put another way, the net own rate of return to government-owned assets is set to zero, independent of macroeconomic conditions or the performance of public managers. That approach is mistaken on normative and positive grounds. First, against the two views that have long informed discussions of the treatment of publicly-owned assets — on the one hand, that government activities cannot pass a market-test and so merit a zero return at most; on the other, that returns to assets used in government activities likely mimic such assets' returns in private activities — the paper urges a middle view: government activities indeed are often not similar to private ones, but they are (loosely) disciplined by bond markets; moreover, government program managers face internal incentives against gross waste. The two disciplinary devices suggest that estimating implicit government returns based on a user-cost concept is more reasonable than imposing a zero net rate. Further, government debt-auction results and investment-goods deflators are readily available (along with longstanding depreciation rates), so constructing user costs for publicly owned assets is straightforward.

Second, in view of the public debt's yield curve, the paper presents a toy model showing that immediate forward rates are appropriate for the user cost, while forward-averaging yields apply to discounting future service-flows. (The argument is the same as using the earliest depreciation rate in the user cost when consumption of fixed capital is nongeometric.) The relative infrequency of national accounts releases permits stretching the immediate forward rate to something longer, such as the year-long yield. This has the practical side benefit of reducing the jumpiness of estimates of the net operating surplus.

Third, the paper's statistical tests of investment-goods price-inflation forecasts confirm the difficulty of improving on univariate autoregressions and smoothing. These enable simple, implementable construction of ex ante revaluation terms for recent years (albeit smoothed estimates only for earlier years). None of this is out of reach for compilers of national accounts.

Fourth, a demonstration of the approach on U.S. data over the past quarter century shows that a nonzero government net operating surplus makes a marked difference on measures of overall output, raising nominal GDP as much as 2.9 percent in 1996, while reducing it by the same

degree in 2012. In fact, incorporating a nonzero own rate of return would have reduced nominal GDP every year since 2002, as the U.S. economy has entered liquidity-trap conditions.