

Analytical Issues in the Construction of Augmented Accounts

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Issues to be addressed

1. The challenge of nonmarket accounts
2. Accounting framework
3. Some tough issues
4. Some interesting sectors:
 - Natural resource accounts
 - Air pollution
 - Health accounts
 - Defense and war accounts

Conceptual Framework

- The natural starting point for accounting framework:
 - use the economic principles underlying the national economic accounts
 - “NEA design” (broader concept than NIPA design)

Adjustments, additions, and subtractions

- *Proposal for basic principle for measuring non-market activity*

Non-market goods and services (G&S) should be treated as if they were produced and consumed as market activities.

The prices of non-market G&S should be imputed on the basis of the comparable market G&S.

Some Useful Concepts

- Near-market v. personal G&S
- Private v. public G&S
- A new issue in non-market accounts: the need for “externality disaggregation”
 - Allocate externalities into production externality and implicit subsidy

Categories of Products



Private goods

Border disputes

- Where to draw the border in design of non-market accounts?
- Consider economic nature of activity, whether activity distorts market accounts, ease of implementation, and policy/social relevance.

Thorny Issues

- The pervasive lack of data
- The difficulties of imputing prices
- The question of consumer surplus and the “zero problem”
- Measurement of natural assets

Environmental accounting

Many of the issues were addressed by the National Academy panel in a report, *Nature's Numbers* (NAS Press, 1999)

Central question:

Should the U.S. national economic accounts be broadened to include activities involving natural resources and the environment?

Short answer:

Yes. Developing a set of comprehensive nonmarket economic accounts that includes natural resources and the environment is a high priority for the nation. But, these should not (yet) be incorporated into the “core accounts” of the NIPA.

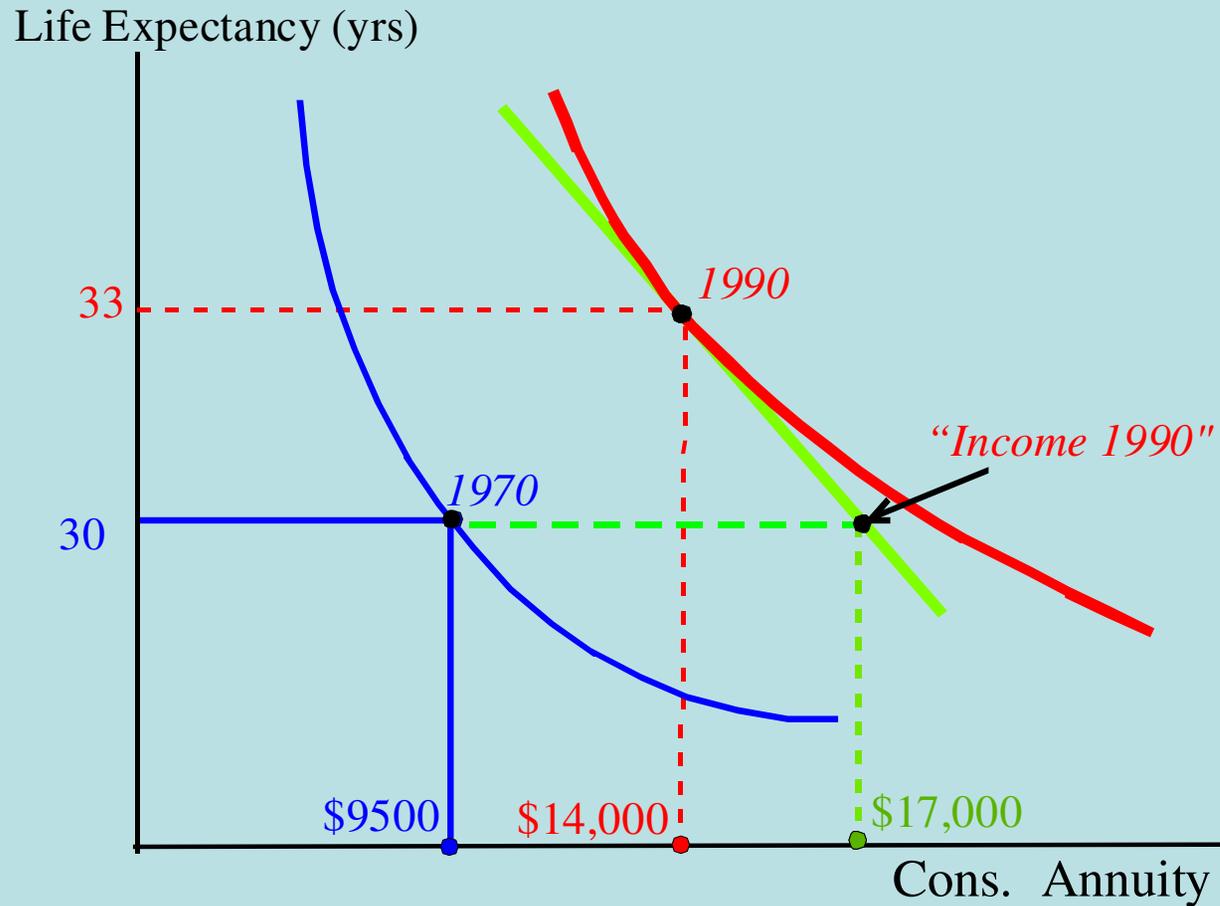
Illustrative Findings from Environmental Accounting

- Incorporating subsoil assets leaves overall national output and investment largely unchanged,
- But accounting for subsoil assets has a major impact on measured profits.
- We are significantly understating national saving and investment.
- The largest potential impact on the environmental accounts is likely to be accounting for the impact of air pollution on health status.

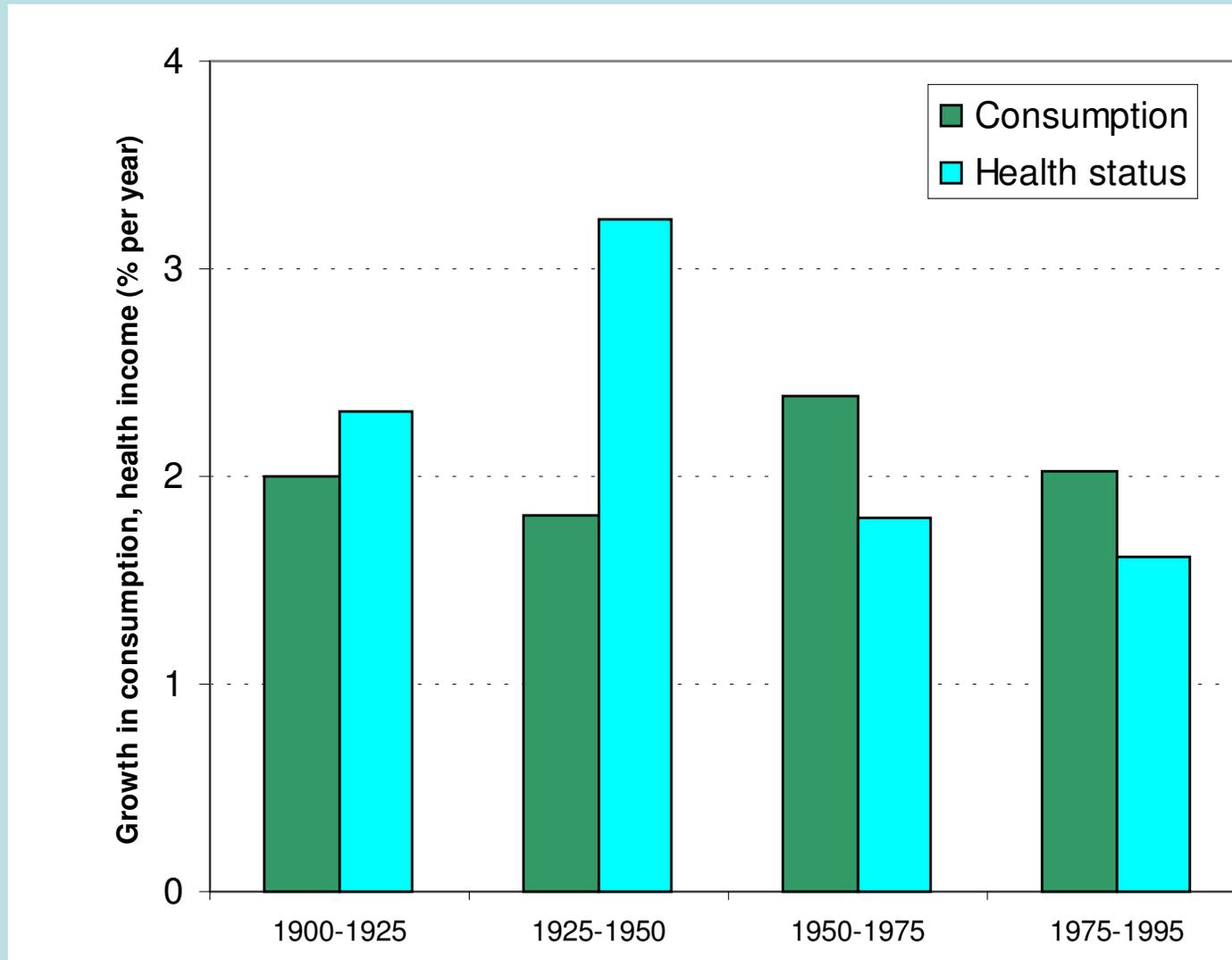
Further work on Air Pollution

- The Mendelsohn Project at Yale

Health Accounts



Preliminary calculations



Bars show the growth in that component divided by non-health consumption.

Defense and War Accounts

Non-market defense and war foreign accounts

Billions of current dollars

1995-2003

Exports

Military equipment

Taiwan 30

Saudi Arabia 28

Non-market damages

Kosovo -2

Afghanistan -5

Iraq -20

Imports

Non-market damages

September 11 -25

Other -1