

**MEETING OF THE TASK FORCE ON
FINANCIAL INTERMEDIATION SERVICES INDIRECTLY MEASURED (FISIM)**

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Four arguments in favour of a risk adjusted FISIM

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The Short Minutes of the 1st Meeting of the Task Force “On Financial Intermediation Services Indirectly Measured (FISIM) “(4-5 October 2010, Luxembourg) states: “The elimination of the default risk from FISIM was considered as a possible way forward.” (Item 16)

However, the subsequent remarks argue in favour of a risk adjustment for all kinds of risks involved, i.e. currency risk, default risk and term risk.

1. Impossibility of negative production value

The outcome of risk bearing may be positive or negative (or zero). The value of the outcome of a production activity can by definition only be greater than zero or zero. The SNA 2008 accepts “negative margins” in the case of retail and wholesale trade (par. 6. 150). But one wrong doesn’t justify another.

2. Make or buy criterion

If some thing bought from a third party

- (a) Is a service, then own production is in principle a service, too.

This treatment we do have in the case of owner occupied dwellings.

- (b) Is a financial asset, “own production” on principle can not be a service.

Hedging the risks under review by a third party is always a financial asset not a service (currency swap, credit default swap, interest rate swap)

3. Risk bearing is not a primary service

Sometimes it is argued: "...risk bearing is among the primary factor services the owners provide to any enterprise, including financial corporations. (see Dennis Fixler and Kim Zieschang "Deconstructing FISIM: Should Financial Risk Affect GDP?", Footnote 10, *Paper Prepared for the 31st General Conference of The International Association for Research in Income and Wealth* St. Gallen, Switzerland, August 22-28, 2010)

The SNA is very clear in this respect:

-par. 2.148 "... The detailed analysis of production activities and product balances is made in the supply and use tables presenting:

a. ...

b. ...

c. Data on **factors of production (labour and fixed capital)** used by industries."

- par.25.36 ...These units typically operate at a low level of organization, with little or no division between **labour and capital as factors of production** ...

- par.2.65 ...When output is valued at basic prices, value added includes besides **primary incomes due to labour and capital**,

value added is at factor cost, which excludes taxes on production of any kind, though this concept is not used explicitly in the SNA.

The BEA itself shares this view: "Estimates of nominal value added measure the returns to an industry's **primary factors of production--labour and capital--.....**: (see: Erich H. Strassner and Brian C. Moyer :” An Analysis of the Composition of Intermediate Inputs by Industry,WP2002-05 Bureau of Economic Analysis, United States, page 2).

The question is not whether it makes sense to treat risk bearing as a service or not. The question is whether this is in line with the paradigm of the SNA. As Wang and Basu state it may be possible to construct such a system, but this would be another system:” Such a system (that counts risk bearing as a service output, W.E.) has not, to the best of our knowledge, been worked out, and the current NIPA—which count only FIs’ risk - related return as a service—do not meet the consistency requirement. We will discuss the most salient features necessary for such a system, but it is beyond the scope of this paper to develop a full - fledged version and consider all the relevant consequences.(Christina Wang, Susanto Basu: “Risk bearing, implicit financial services and specialisation in the financial industry, Public Policy Discussion Papers, Federal Reserve Bank of Boston 06-3, 2005, p.22)

4. Input of labour and capital is not sufficient for qualifying an economic activity as production

Venture-capital companies are not taken into consideration in German NA. In terms of national accounting, the profits of such a company are assignable to 'holding gains'. According to information from the German Venture Capital Association (*Bundesverband Deutscher Kapitalbeteiligungsgesellschaften*) the main 'exit channels' for providers of venture capital consist in a buy-back by the senior partner (around 60% of transactions) or the sale of the venture to another investor (such 'trade sales' account for around 30% of transactions). This is done although venture capital companies have a staff and use (real) capital.

Summary

The paper lists four arguments in favour of a risk-adjusted FISIM. The reasoning is the consistency with fundamental principles of the SNA. In the SNA GDP is a measure of production and income is its identical mirror. However, a supplementary “national accounting system” is thinkable, where “real” production and “monetary” income are different things. But this is a question of the SNA2008 research agenda.