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Making finance productive

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Abstract

Western governments' response to ongoing economic crisis has demonstrated that the financial services sector is seen to perform a critical and productive function in today's capitalist economies. This paper explores how this politically potent perception of productiveness has come to achieve the hegemony that it now enjoys. A principal forum for the 'making' of finance sector productiveness, it shows, has been the tradition of national accounting and its reporting of key economic metrics such as gross domestic product. By placing different activities on different sides of a pivotal 'production boundary', national income statisticians effectively dictate what counts as productive – as adding value to the economy – and what does not. Finance's contemporary representation as productive is predicated, the paper shows, on a long and contested history of boundary negotiation.

Keywords:

finance representation statistics productiveness national accounts value added

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Notes

1. This is especially true in the UK, yet even in the case of the US and President Obama's high-profile financial sector reforms, most commentators and industry insiders appear to believe that the recommended changes will have only marginal effects. As The New York Times (2010) reported in May 2010 (when the final edits to this paper were being made), ‘Wall street's initial verdict seems to be that [the legislation] could have been much more draconian’, leaving bank executives ‘relieved that the bill does not do more to fundamentally change how the industry does business’.

2. Cf. Preda (2009) on constructions of the boundary between the stock market and ‘society’.

3. Tomlinson (1994) provides an important and fascinating analysis of the parallel historical development, from the 1940s, of economic productivity as a policy problematic and national accounting as a calculative technology. Prior to 1939, ‘concern with productivity was episodic, underdeveloped and ill-focused’. The subsequent rise of the productivity concept ‘to a wholly new prominence in discourse about the economy’ was indelibly linked to ‘the rise of measurement of the national economy’ (1994, pp. 168-9).

4. It is certainly more frequently invoked than close relation GNP, which is why the present paper emphasizes it. The difference between the two is that GDP is based on location (output produced within a country's borders), while GNP is based on ownership (the output of enterprises owned by a country's citizens).

5. I draw on three main sources here. Paul Studenski's magisterial The income of nations (1958) remains the authoritative account of the period up to 1950. Kendrick (1970) is shorter and more accessible, but, likewise, dated. André Vanoli's A history of national accounting (2005) is the fullest attempt to trace developments up to the present day.

6. Like GDP and GNP, GDP and GVA are very close relations, but are not identical. Strictly speaking, only GVA is calculated – and reported – for individual sectors or industries. This, however, does not stop economists, politicians and others from talking about industry 'shares of GDP'. To derive GDP from cumulative all-sector GVA, it is necessary to add total product-based taxes and deduct total product-based subsidies. Hopwood, Burchell and Chubb (1994) offer a useful account of the political-economic history of the concept of 'value added' in accounting practices.

7. The OEEC was the precursor organization to the Organization for Economic Co-operation and Development (OECD), which replaced it in 1961.

8. In this regard it is interesting to note that if one visits the website of the UK's Office for National Statistics (http://www.statistics.gov.uk), and sets about retrieving historical data for GVA by industry ('Gross value added at chained volume measures basic prices, by category of output'), one stumbles upon the following fact: these data are available all the way back to 1948 for the vast majority of sectors, whereas for 'Business services and finance', the pertinent data series does not begin until 1983.

9. A somewhat similar approach was used in Australia from 1948 to 1972, except that there profits were excluded from the calculation of banking output on the grounds that they were deemed transfer items.

10. Retrieved from http://statistics.gov.uk/about/methodology_by_theme/inputoutput/downloads/Change_in_GVA_by_industry_2005_edition.xls.

11. In the UK, the IBSC was termed the financial services adjustment. However, in the document in question, it is given yet another label, namely FISIM – a term introduced by SNA 1993, and which is discussed in the next subsection of the paper.

12. Though an update was published in 2008 (similarly, revised versions of SNA 1953 were published in both 1960 and 1964).

13. The key paragraphs in SNA 1993 are 6.126 to 6.128. All subsequent quotations from SNA 1993 are taken from these paragraphs, except where noted otherwise.

14. For example, Moulton (2004) and articles referenced therein.

15. A claim, it is worth emphasizing, that is hardly novel, especially where the economics of accounting is concerned. As far back as 1988, Ruth Hines, in a seminal paper, said of financial accountants: 'In communicating reality, we construct reality'. And in his introduction to an invaluable edited collection published in 1994, Peter Miller likewise scotched the notion that accounting can ever be regarded as 'a neutral device that merely documents and reports "the facts" of economic activity'. Rather, 'the 'economic' domain is constituted and reconstituted by the changing calculative practices that provide a knowledge of it' (1994, pp. 1, 4, emphasis in original).

16. Which the SNA 2008 revision of SNA 1993, at paragraphs 6.163 to 6.169, takes to arguably an even more involved level.
