

Result of Global Consultation on Government and Other Non-Market Producers' Owned Assets – Cost of Using Capital, Issue No. 16

Introduction

1. The 1993 SNA states that by convention there is a zero net operating surplus for non-market producers, which implies there is no return to capital on their assets. The Canberra II Group considered issue relating to estimating cost of using capital in cases of government and other non-market producers owned assets and proposed the following changes to the System of National Accounts:

- a. A return to capital should be estimated for non-financial assets of non-market producers (principally but not exclusively those owned by government) whether they are
 - i. of the type used by employees in the course of their work (e.g. computers, vehicles),
 - ii. those which provide a service to the economy at large (e.g. roads),
 - iii. those which provide a service to the community at large (e.g. recreational facilities such as a city park);
 - b. This return to capital should reflect the value of the asset; if the asset has an elevated value because it is rich in historical or cultural associations, the return to the asset will reflect this higher value;
 - c. The capital services corresponding to these returns to capital should be used instead of consumption of fixed capital in calculating the value of output of non-market producers when this is estimated as the sum of costs incurred;
 - d. The definition of an asset needs to be clarified to ensure that assets which provide benefits to the economy or community as a whole and not just to the owner of an asset are included.
2. The Canberra II Group considered that assets falling into all the three classes (a(i), (ii) and (iii)) should be deemed to provide capital services and that estimates of these services should be used in place of consumption of fixed capital in the measurement of output of non-market production when it is estimated as the sum of costs incurred. However, the Group noted that the first priority was to include capital services for those assets used by employees of a non-market producer in the normal course of their work. A second priority would be to extend this to assets providing benefits throughout the

economy generally, such as roads. It may be difficult to place a value of the third type of assets, such as city parks and historical monuments, and incorporating capital services for these should be seen not only as a lower priority but also possibly infeasible in practice. If it has been possible to calculate consumption of fixed capital for these assets, there would be little difficulty to changing this to an estimate of capital services, but in some cases where there are no estimates of the value of these assets, neither may be possible.

AEG Recommendations

3. The Advisory Expert Group (AEG) considered proposals of the Canberra II Group in December 2004. There was strong support in principle for including a return to capital, viewed as an opportunity cost, in the measurement of non-market output. However, concerns were expressed about the rate of return to be chosen and availability of data for capital stock. In terms of the range of assets which could be covered, most participants favored including those assets in the generation of government output similar to those assets used in market production. A smaller number favored including roads and other infrastructure assets. Progressively fewer favored including assets such as city parks serving the community at large and land.

It was agreed that these range of positions of the AEG should be sent to all countries seeking reaction on both conceptual and practical grounds.

Global Consultation

4. Pursuant to the decision of the AEG, the ISWGNA has conducted a global electronic consultation to determine the views of national statistical offices, central banks and other interested parties on the measurement of output of government and other non-market producers. The issues addressed in the global consultation are basically - when summing costs to make estimates of output for non-market producers, what should be used to reflect the cost of using non-financial assets:

- (a) Consumption of fixed capital only, which is the current recommendation, or the full cost of capital services (approximately consumption of fixed capital plus a return to capital)?
- (b) If the full cost of capital is chosen, should it apply to all non-financial assets owned by the non-market producer or just some of them?

Conclusions

5. Only twenty two countries¹ have responded to the global consultation. Responses received to the questions circulated for soliciting the views on the matter have been summarized in Table 1. Number of responses received is perhaps not significant enough to draw any definitive conclusion on the issue. However, based on the results of the global consultation following can be observed:

¹ Australia, Croatia, Czech Republic, Denmark, Finland, Germany, Iran, Israel, Italy, Macao, Mauritius, Mexico, Mongolia, Netherlands, Norway, Poland, Portugal, Slovenia, South Africa, Sweden, Ukraine and UK.

- (i) All responses (except one) have been received from organizations responsible for deriving estimates of output of government in their country's national accounts;
- (ii) Out of 22 countries, 12 countries agree in principle to replace consumption of fixed capital with capital services when summing costs to derive estimates of output of government and other non-market producers and 9 countries disagree with the proposal (Mongolia has not returned any response to this question);
- (iii) Out of the 12 countries that agree in principle to replace consumption of fixed capital with capital services when summing costs to derive estimates of output of government and other non-market producers, 8 countries expressed reservations about the feasibility of implementation on account of reasons including non-availability of requisite data, concerns about having to make assumptions about rates of return; and concerns about comparability among countries of such estimates;
- (iv) Only 4 countries agree to the proposal in principle as well on practical considerations;
- (v) Number of responses are considered too small to undertake analysis of other issues like categories of assets for which capital services should be estimated, country practices for estimating consumption of fixed capital etc.

6. It may be noted that this issue was also included in the country consultation seeking views of the countries on the decisions of the AEG taken in its meeting held in December 2004 on issues identified for updating the 1993 SNA (document No. SNA/M1.05/03). The result of that consultation (to which 53 countries responded) show that whereas 20 NSOs/NBs supported, in principle, for including a return to capital, viewed as an opportunity cost, in the measurement of non-market output, 12 expressed reservation/difficulty in implementation of the proposal and 14 disagreed .

7. We have 6 countries responding to the present global consultation who did not respond to the country consultation referred to above. Of these six countries, 3 agree in principle to the proposal but not on practical considerations and the remaining 3 disagree. If we combine the responses of the two consultations, we have the number of countries in agreement, expressing reservation/difficulty in implementation and in disagreement with the proposal as 32, 20 and 23 respectively.

	Agree in principle	Reservation/difficulty in implementation	Disagree
Country consultation on AEG Decisions	20	12	14
Global consultation on Item 16	12	8	9
	32	20	23

Table 1: Summary of responses received from countries

No.	Questions	No. of countries returning	
		Yes	No
Q1	Do you agree in principle with the proposal to replace consumption of fixed capital with capital services when summing costs to derive estimates of output of government and other non-market producers?	12	9
Q2	If you agree with the principle but still do not agree with the proposal, what are the reasons? (a) Time series data available too short and therefore stock data for non-market producers not yet available (b) Concerns about having to make assumptions about rates of return (c) Concerns about comparability among countries of such estimates (d) Other reason (please explain)	8* 5 3 3 1	- - - -
Q3	If it is decided to go ahead with the proposal, for which asset categories do you think capital services should be estimated? (a) Category a(i) assets used by employees (b) Category a(ii) assets providing services to economy at large (c) Category a(iii) assets providing services to community at large	 18 13 6	 1 7 11
Q4	Is your organisation responsible for deriving estimates of output of government in your country's national accounts?	21	1
Q5	What is your country's current practice when summing the costs of non-market producers? Do you include estimates of consumption of fixed capital for any category of assets? ▪ Category a(i) assets used by employees ▪ Category a(ii) assets providing services to economy at large ▪ Category a(iii) assets providing services to community at large	 19 18 14	 1 2 5
Q6	If you answered YES with respect to any category in Question 5, please describe how you derive estimates of consumption of fixed capital. ▪ Perpetual inventory method ▪ A fixed proportion of the other costs ▪ Some other method - Please describe	 15 2 6	 - - -
Q7	Any other comments you wish to make concerning the update of the 1993 SNA?		

Notes: The total of responses to Q.1 does not add up to 22 as Mongolia did not return response to Q.1

* does not tally with the total of responses against a, b, c, and d as some countries have returned more than one reasons for disagreement with the proposal. For details please see col. 4 of Table2.

Responses to the questions received from countries are given in Table 2.

Table 2: Country responses to the questions of the Global Consultation

Country	Orgn	Q1	Q 2	Q3			Q4	Q5			Q6			Q7
		Agree in principle	Agree in principle but not with the proposal - reasons	Category of assets			Org responsible for NA	Current practices- Category of assets			Deriving CFC			Comments for SNA update
				a(1)	a(2)	a(3)		a(1)	a(2)	a(3)	PIM	Fixed proportion of costs	other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Australia	NSO	Y		Y	Y	N	Y	Y	Y	Y	Y			
Croatia	NSO	Y	b	Y	Y		Y	Y				Y		
Czech Republic	NSO	N		Y	N	N	Y	Y	Y	Y	Y			
Denmark	NSO	Y	a,b,c	Y	Y	Y	Y	Y	Y	Y	Y			
Finland	NSO	Y	c	Y	N	N	Y	Y	Y	Y	Y			
Germany	NSO	N					Y							
Iran	NSO	Y	a	Y	N	N	Y	Y	Y	Y			Y	
Israel	NSO	Y		Y	Y	Y	Y	Y	Y	Y	Y			
Italy	NSO	N		Y	Y	Y	Y	Y	Y	Y	Y			
Macao SAR China	NSO	Y	a,b,c	Y	N	N	Y	Y	N	N			Y	
Mauritius	NSO	Y	a		Y		Y		Y		Y			
Mexico	NSO	Y	a	Y	Y	N	Y	Y	Y	N			Y	
Mongolia	NSO						Y	N	N	N				
Netherlands	NSO	Y		All fixed assets			Y	Y	Y	Y	Y			
Norway	NSO	Y		Y	Y	Y	Y	Y	Y	Y	Y			
Poland	NSO	N		Y	Y	N	Y	Y	Y	Y			Y	
Portugal	NSO	N		Y	N	N	Y	Y	Y	Y	Y	Y	Y	
Slovenia	NSO	N		N	N	N	Y	Y	Y	Y	Y			
South Africa	NSO	N		Y	Y	N	N	Y	Y	N	Y			
Sweden	NSO	N		Y	Y	Y	Y	Y	Y	Y	Y			
Ukraine	NSO	N		Y	Y	Y	Y	Y	Y	Y	Y			
U.K.	NSO	Y	d*	Y	N	N	Y	Y	Y	N	Y		Y	

Y: Yes N: No

a: time series data available too short and therefore stock data for non-market producers not yet available, **b:** concerns about having to make assumptions about rates of return **c:** concerns about comparability among countries of such estimates, and **d:** other reason

d* : Not all assets allow a market rate of return to be estimated, because of lack of a market. Government bond rates can be used but this is not particularly satisfactory. It would though be better than staying with the status quo of using only consumptions of fixed capital.