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UNITED NATIONS

STATISTICAL OFFICE

ESA/STAT/AC.34/4
July 1989

ENGLISH ONLY

Expert Group Meeting on
SNA Co-ordination
New York, 12-21 July 1989

AGENDA AND SUGGESTED ISSUES FOR DISCUSSION

Prepared by:

Inter-Secretariat Working Group

12 July 1989

ANNOTATED AGENDA EXPERT GROUP SNA COORDINATION
New York 12-21 July

OUTLINE OF BLUE BOOK

CHAPTER II OVERVIEW OF THE SYSTEM

CHAPTER III INSTITUTIONAL UNITS AND RESIDENCE and CHAPTER IV SECTORS AND SUBSECTORS

1. General and specific criteria for grouping institutional units into sectors
2. Use of the term enterprise for all institutional units as producers, and unincorporated enterprises for all production units of households
3. Distinctive features of government as compared with other sectors
4. Coverage of public quasi-corporations as distinct from government unincorporated enterprises
5. Social security schemes
6. Classification and coverage of financial intermediaries
7. Subsectoring of the household sector
8. Definition of direct investment enterprises
9. Criteria for major ownership/control in distinguishing between public and private and within private between domestic and foreign owned enterprises
10. Criteria for determining residence: center of interest, other
11. Non-profit institutions, coverage and classification
12. Distinction between formal and informal sectors
13. Income from self-employment

RELATION BETWEEN SNA AND ISIC STATISTICAL UNITS

CHAPTER V THE PRODUCTION ACCOUNTS (Production boundary, output and intermediate consumption)

1. Production boundary within households: imputed rent of owner occupied dwellings, treatment of repairs and maintenance for owner occupied dwellings
2. Illegal activities and transactions
3. Separate establishments for own account capital formation, research and development and mineral exploration
4. Output of insurance enterprises
5. Output of other financial intermediaries (banks)

CHAPTER VI FINAL EXPENDITURES (including CHAPTER V THE PRODUCTION ACCOUNTS - Capital expenditures)

1. Are households the only final consumers ?
2. Individual versus collective consumption, coverage and treatment; enlarged consumption (terminology)
3. Government services provided to market producers
4. Is national consumption the only concept at all levels of aggregation or should territorial consumption continue to be used in detailed classifications
5. Consumer durables as a store of wealth
6. Research and development, mineral exploration, intellectual property, software: intermediate consumption or capital formation (what is the asset ?)
7. Military expenditures, consumption versus capital formation
8. Capital transfers in kind to be included in capital formation
9. Coverage of stocks: stocks for resale, government strategic stocks, losses in stocks of trade, stocks of market regulatory agencies
10. Work in progress in services,
11. Valuation of stocks, valuation of output of storage, changes in stocks in business accounts
12. Coverage, valuation and treatment of natural growth products: agricultural crops, livestock, orchards, timber tracts etc.
13. Use of the alternative terms: consumption of fixed capital, amortization, depreciation
14. Links between capital formation and capital stock in the balance sheets
15. Criteria to determine whether processing of goods abroad should be recorded gross or net in exports and imports: processing involves significant or insignificant changes in the product
16. Multiple exchange rates

CHAPTER VII PRODUCTION ACCOUNTS FOR INDUSTRIES AND THE INPUT-OUTPUT TABLES (including CHAPTER V THE PRODUCTION ACCOUNTS - Value added; and CHAPTER II OVERVIEW OF THE SYSTEM - Valuation))

1. Should the emphasis in the exposition of input-output tables be based on the ideal establishment criterion (one product, one location) or should it more prominently take into account the practical occurrence of secondary production ?
2. Is there a need for the term "main activity" (covering principal and secondary activities) as distinct from "ancillary activity" ?
3. Should the term "industry" be used encompassing market and non-market producers ?
4. Is it acceptable to base the distinction between market and non-market activities on the criterion that more or less than 50% of the cost is covered by sales ?

5. Valuation of output, intermediate consumption and value added; treatment of product taxes
6. Should the exposition on resources and uses (Tables A, B, and C) be based on the terms intermediate and final purchases of goods and services or apply the terminology intermediate consumption and final demand ?
7. Use of the term "output" to replace the term "gross output"
8. Definition of purchasers' prices in the valuation of intermediate and final demand, taking into account the non-allocation to sectors of import duties and deductible taxes
9. Use of VAT or a more general term to explain the treatment of deductible taxes
10. Use of the terms: primary income versus factor income and factor cost; primary factors of production
11. Gross operating surplus: Is it entirely a residual item or could it be measured directly ?
12. Should the generally accepted terms "make" and "use" matrix be used even though these terms do not reflect accurately their content ?

SUGGESTED ISSUES

OVERVIEW OF THE SYSTEM (Ch. II)

A. Production accounts for institutional sectors (See also Ch. V)

1. The first SNA Expert Group meeting in Geneva (1986) agreed that production accounts should be introduced for both industries and institutional sectors and that there should be a link between the two types of accounts only for value added. The SNA Expert Group Meeting in Vienna (1988) recommended that production accounts for institutional sectors would show only total output, intermediate consumption and the components of value added.

2. These recommendations have been accurately reflected in the three tables that define a part of the SNA accounting structure as explained in the draft of Chapter II. In the table on the Integrated Economic Accounts for the Nation, gross output, intermediate consumption and value added broken down by components, are classified by institutional sectors and the identity between the aggregate components of supply and use is incorporated in the goods and services columns of this table. An alternative breakdown with more detail is presented in the supply and use table which is planned to be incorporated in chapter VII. This table includes output, intermediate consumption and value added components, classified by industries and shows a further detail of output and intermediate consumption by type of goods and services. A third table on value added cross classified by institutional sector and kind of economic activity, also to be included in chapter VII, provides the link between the institutional and industry breakdowns.

3. A cross-classification of the entire production accounts by institutional sector and industry is therefore not available. This was a point, that was discussed in the Luxembourg meeting and was not conclusively resolved. It was generally thought that a cross-classification of the production accounts with goods and services detail would not be feasible, but

some participants felt that a more modest link cross-classifying output, intermediate consumption and value added components by institutional sectors and industries would be feasible and even necessary in order to improve the integration of production accounts with the other accounts of the system.

4. The experts are requested to consider this aspect and again determine whether the classifications presently included in the three tables mentioned are adequate or whether a further cross classification of all main components of the production accounts by institutional sectors and industries is desirable.

B. Valuation of gross output, intermediate consumption value added (See also Ch. VII)

1. The SNA Expert Group in Vienna (1988) recommended that goods and services should be valued at basic prices excluding net taxes on products. The basic price valuation is primarily meant to be used for the valuation of goods and services and not for value added. As the recommendation by the Expert Group left open the exact elaboration of the basic price valuation in the input output table to the author, some further discussion of this issue is needed in the light of the detailed elaboration in the Chapter on "Production Accounts for Industries and the Input Output Tables" and in view of the fact that an alternative treatment was followed in the accounting structure of chapter II.

2. In the accounting structure of chapter II, the supply and use table values all output flows in the resources section of this table in basic prices and subsequently excludes taxes minus subsidies on products from value added presented in that table. Taxes minus subsidies is included in a separate column of the resources section of this table, which -- together with another column on trade and transport margins -- converts supply in basic prices into supply in purchasers' prices, so that it can be compared with the total uses of goods and services in the use section of the table, which are also valued in purchasers' prices. In the Integrated Economic Accounts for the Nation,

output is also in basic prices and value added consequently excludes product taxes minus subsidies as well. In order to avoid, however, that GDP in this table would not include these taxes, they are added as global adjustments in the national economy column with a counterpart in goods and services column.

4. An alternative treatment has been followed in the text of chapter VII. This treatment introduces basic values for gross output and intermediate consumption by re-allocating the product taxes from the value added of the sector producing or selling the goods or services to the value added of the sector purchasing them. If the purchasing sector is a producer, value added is reduced by the product taxes on output and increased by the product taxes on intermediate consumption. If the goods or services are used for final demand, the product taxes are allocated to the final demand columns of the input output table. The re-allocation of the taxes follows the same principles as the re-allocation of trade and transport margins in the registration of goods and services flows in producers' values as distinct from registering these flows in purchasers' values.

Both treatments differ from the one followed in the 1968 SNA. The main valuation there is producers' prices and basic prices are identified by breaking down producers' values of gross output and intermediate and final demand into basic values and product taxes. This breakdown does not alter value added, as product taxes are not re-allocated in the process of identifying basic values.

5. Experts are requested to consider both alternatives and determine which of the two types of treatments of product taxes minus subsidies is preferable and should be followed in all tables and text of the new SNA draft. In selecting the preferable alternative, experts may determine:

(i) which of the two alternatives would lead to less complex presentations that therefore could be more easily understood by producers and users of the national accounts.

(ii) that the second alternative used in the text of chapter VII would result in a concept of value added in basic prices that is analytically not a useful concept, and

(iii) that the second alternative would lead to payments of product taxes minus subsidies in the income and outlay accounts by households and government as consumers.

C. Definition of enterpreneurial income

1. The SNA Expert Group Meeting in Florence (1987) discussed the distinction between compensation of employees and operating surplus, particularly with regard to operating surplus of private unincorporated entreprises included with the household sector. (See report of the SNA Expert Group Meeting on the Household Sector, paras. 41 and 42). As the operating surplus of these enterprises is a combination of return to labor and capital, interpretation of operating surplus in the consolidated accounts is difficult. Should the operating surplus of unincorporated enterprises be distinguished from that for corporate enterprises, by renaming it "enterpreneurial income" (Draft annotated agenda, page 68 of the Report). As an interim measure it was proposed at the meeting to show in the consolidated accounts for the nation, operating surplus of the corporate sector separately from operating surplus of private unincorporated entreprises. It was suggested, however, to study this further and find terminology which would make a distinction between operating surplus of corporations and other enterprises.

2. Further thought was given to this question and in the draft chapter two alternatives are included in the accounting framework. The present version of the accounting framework in the draft of chapter II includes entrepreneurial income as a balancing item of the sub-account for entrepreneurial income, which is derived by adding to operating surplus, all property income received by market producers and deducting compensation of employees as well as

interest and land rent -- but not distributed income of corporate enterprises -- paid by market producers. Entrepreneurial income defined in this way would exclude the return to borrowed funds and thus would approximate more closely a pure concept of entrepreneurial income for the owners of private unincorporated entreprises.

3. In the draft of the new SNA, Chapter III paras. 14-21, another alternative treatment of enterpreneurial income is given. This treatment is based on the observation that the operating surplus of unincorporated enterprises is most often a return to both capital and labour. It is therefore quite unlike the operating surplus of corporate enterprises which excludes a return to labour. There are two ways of recorgnizing this difference - use different terms for describing the operating surplus of corporate versus unincorporated enterprises or allocate the whole of the operating surplus of unincorporated enterprises either to compensation of employees or to operating surplus depending or whether the "operating surplus" is mainly a return to labour inputs or to capital (including "entrepreneurship").

4. Participants should decide which of the two concepts of entrepreneurial income as described in the previous paragraphs should be included in the next version of the SNA.

D. Classification of assets and liabilities in the accumulation accounts

(For discussion during September meeting, comments should be confined to sequence of accounts)

1. The SNA Expert Group Meetings on Financial Flows and Balance Sheets (Washington, D.C. 1988) made recommendations that govern the structure of the accumulation accounts in the present sequence of accounts. These included decisions to integrate more fully the present SNA reconciliation accounts with the present capital finance accounts of the SNA and thus identify a concept of changes in net worth in the flow accounts. It was also decided to breakdown the present reconciliation accounts into sub-accounts that would identify

separately volume and price changes and would distinguish between holding gains arising from relative price movements and holding gains arising from changes in the general price level. In addition, decisions were taken with regard to the terminology to be used in -- what are now called --the accumulation accounts.

2. Participants are invited to comment on three specific aspects of the accumulation accounts which are reflected in the sequence of accounts. Participants are also invited to comment on the breakdown of the accumulation accounts into four sub-accounts: capital account, financial account, other changes in volume account, and a revaluation account. Each of these accounts derive as balancing item, a separate component of changes in net worth due to savings and capital transfers, non produced volume changes and revaluation changes, which explain the difference between the value of opening and closing assets.

3. No final decisions have yet been taken with regard to the classification of assets, except for financial assets. Some comments were received from the SNA Expert Group Meeting in Luxembourg (1989) and these comments were incorporated into in the classification included in the draft of Chapter II. Participants are invited to comment on the distinction made in the classification between reproducible and non-reproducible assets and the treatment of land which is always included as part of buildings and also shown separately as a memorandum item, together with cultivated, recreational and other land. The experts may also note that all consumer durables are included in the classification of consumer goods except those representing a store of wealth, which are included in the classification of assets. Exclusion of consumer durables for the asset breakdown may create an inconsistency with the recommendation by the SNA Expert Group on Financial Flows that consumer durables be treated as memorandum items in the balance sheets. (See also Report of the Household Sector Meeting, para. 80).

4. Furthermore, experts are invited to comment on the relevance of two alternatives in the classification of "transactions" in the accummulation accounts, on which no decisions have been taken yet:

(i) One alternative, which was presented to the SNA Expert Group Meeting in Luxembourg (1989) in the first version of the SNA accounting framework, was to classify the transactions in the accounts by type of assets: tangible, intangible, financial assets. The asset classification in the accumulation accounts has the advantage that the various changes in net worth can be identified in the accounts by type of asset and thus can be added together in order to arrive at total changes in net worth classified by type of asset which will have links between the opening and closing balance sheets.

(ii) The alternative approach, which is included in the present accounting framework of Chapter II and also in the classification of accumulation transactions, is to classify changes in assets by type of "transaction". This orientation fits in better with the transaction orientation of the other accounts of the system. It identifies as transactions for instance gross fixed capital formation --which may concern reproducible as well as non-reproducible assets --, economic appearance and disappearance of non-produced assets, destruction of assets, uncompensated seizures of assets, and also distinguishes between two types of holding gains. The "transaction" orientation adopted for the accumulation accounts was not followed in the financial accounts, however, because no accepted classification of transactions was available and therefore the financial asset classification was maintained. In some instances, assets were identified as subheadings of the transaction classification; however, this was not done systematically -- in order not to overburden the accounts -- so that there is no direct link in this classification between the asset breakdown of the balance sheets -- where there is no other alternative -- and the transaction breakdown of the accumulation accounts. In order to overcome this difficulty, a separate table has been included in chapter II, providing an asset breakdown of the transactions in the accumulation accounts, which is linked with the asset breakdown included in the opening and closing balance sheets.

5. Final decisions on these two alternatives for the transaction breakdown of the accumulation accounts are important at this stage, in order to determine the precise format of the three-dimensional classification of the flow-of-funds table and balance sheets on which recommendations were made during the SNA Expert Group on Financial Flows and Balance Sheets and which will be discussed during the next meeting of the SNA Co-ordinating Group in September (Drafts of some of these tables are already available).

E. Cif./fob. treatment of imports

1. The SNA Expert Group on External Transactions recommended that imports be valued fob in the external accounts of the SNA, in conformity with similar treatment in the Balance of Payments. However, the Expert Group on Production Accounts and Input-Output tables, subsequently agreed that for the detailed breakdown of imports in the input-output framework of the SNA, the cif valuation for imports be continued.

2. In view of these two recommendations, the supply and use table of chapter VII includes adjustment items to reconcile the cif valuation of imports included in this table, with the fob valuation in the external sector of the Integrated Economic Accounts for the Nation. The adjustment items presented in separate rows of the supply and demand tables, deduct from imports as well as exports, the domestic supply of transport and insurance services on imported goods.

3. Participants are invited to comment on whether the presentation of the cif and fob valuations of imports is in line with the recommendations of the two SNA Expert Groups quoted.

F. Relative importance of main product and income aggregates

1. The Expert Group on the Structure of the SNA agreed that Gross Domestic Product at market prices should remain the central aggregate of the system. Also, the group recognized the need to reintroduce Gross National Product, but since this is more properly an income concept rather than a product concept it should be referred to as Gross National Income in market prices. Furthermore, it agreed that the SNA needs to consider the derivation of alternative income measures and in particular derivation of real national disponible income.

2. Chapter 2 of the revised SNA has incorporated four main aggregates in the SNA accounting structure: Gross Domestic Product, Gross National Income, National Income, and National Disposable Income. Participants are invited to comment on whether this reflects properly the relative importance of gross domestic product and other income aggregates.

INSTITUTIONAL UNITS AND RESIDENCE (Ch.III)

A. Treatment of Non-Profit Institutions engaged in market activities

1. Chapter III contains a full explanation of the nature of Non-Profit Institutions (NPIs)and an important distinction is there made between those which are engaged in market versus non-market production. (See paragraphs 103 and 104). NPIs engaged in market production consist mainly of private schools, universities, hospitals and clinics which support themselves by charging market or "near-market" prices for their services. NPIs of this kind are essentially distinguished from non-financial corporations only by the fact that their articles of association do not provide for any "operating surplus" that may be generated to be distributed to the members of the association controlling the NPI.

2. Chapter IV (paras. 19-20) recommends that NPI's of this kind should be included in the non-financial corporate sector and not in the sector "private non-profit institutions serving households".

B. Formal/informal sectors

(Ch. III, paras. 7-41, also Ch. V, paras. 24-38)

1. The distinction between formal and informal sectors has been discussed several times and various criteria have been proposed for making the distinction. However, in spite of intensive work by ILO in this area, no criteria have so far been found that are operational and acceptable as criteria for international standardization and that could, therefore, be usefully incorporated in the SNA.

2. In view of these difficulties, the SNA Expert Group Meetings have proceeded to develop a close proxy to the distinction between formal and informal. This is the distinction between the corporate and public sector on the one hand and private unincorporated enterprises on the other. (Report on the Household Sector, para. 44).

3. In view of the above, it is suggested in the SNA Expert Group Meeting on Household Sector (Florence) that participants accept the corporate/unincorporated distinction as an operational approximation to the formal/informal distinction. Further guidelines on how countries might develop a more refined definition of the "informal sector" may be given in a Handbook for specific circumstances or analyses of developing countries, taking into account further work by ILO. (See Report of the SNA Meeting on the Household Sector, para. 106).

SECTORS AND SUBSECTORS OF THE SYSTEM (CH.IV)

A. Subsectoring of households (Ch. IV. paras. 9-18 and 47)

1. The SNA Expert Group Meeting in Florence (1987) proposed a first level transactor breakdown of all accounts of households on the basis of employment status of the reference person. Accordingly, it was suggested to distinguish between entrepreneurs, employees and others, with further tentative sub-divisions for "entrepreneurs" into employers and other entrepreneurs, for "entrepreneurs" and "employees" according to kind of economic activity (agriculture, industry and services), for "employees" by three levels of skills (high, medium and low), and for "others" into rentiers, pensioners and other transfer recipients. This breakdown of households would appear in the level of classification hierarchy one step lower than the distinction between households and non-profit institutions serving households.

2. The first SNA Expert Group Meeting in Luxembourg (1989) amended this recommendation by extending the classification of households to four subsectors, i.e. employers, employees, own-account workers, and other households.

3. In the elaboration of the accounting structure in chapter II the conclusions of the Luxembourg meeting were interpreted to include the subsectoring of households at the same level of the hierarchy as the distinction between hosueholds and non-profit institutions. This is also in line with the interpretation given in the other chapters.

4. While the household breakdown is in line with ILO work on the International Classification of Status of Employment (ICSE), further details were needed on ILO's work before final decisions could be taken. However, as ILO has not progressed sufficiently in this area to justify a different decision from the tentative one taken at the Luxembourg meeting, it is suggested that the experts in this meeting confirm the decision taken in January.

THE PRODUCTION ACCOUNTS (Ch. V)

A. Imputed service charge for financial intermediaries (Ch. V, paras. 93-98)

1. The SNA Expert Group meeting in Luxembourg (1989) agreed on how the imputed service charge for financial intermediaries should be calculated but some questions still remain concerning the allocation of the service charge to different categories of final and intermediate consumption, including imports. The participants will have before them a paper by Mr. Pettigrew dealing with the allocation of imputed service charges.

B. Treatment of an environmental assets, natural growth and depreciation

1. The present SNA and M.60 are unclear and ambiguous about the precise coverage and treatment of non-reproducible assets.

2. Specific questions have been raised in a separate paper on Environmental Accounting and the SNA, which was presented to the Luxembourg meeting but not discussed. The paper dealt with the time of recording of natural resources, land, historical monuments and mineral resources in the balance sheets and capital accounts, the time of recording of products of natural growth in production, changes in stocks and gross fixed capital formation, and corresponding questions about the concept of depreciation.

3. Participants are invited to comment on the issues in the paper, and thus provide guidelines for more precise specification of the proposed accumulation and balance sheets of the System, which have been more closely integrated with the other accounts in the proposed accounting framework of the System, as compared with the 1968 SNA (see item IV of Chapter II on the Overview of the System).

FINAL EXPENDITURES (Ch. VI)

A. Capitalization of intellectual property

The SNA Expert Group in Luxembourg (1989) requested that a paper should be prepared for consideration at this meeting on the possibility of expanding capital formation to include certain types of "intellectual property". The participants will have before them a paper prepared by Ms. Carson.

B. Classification of Research & Development assets

1. At the SNA Expert Group meeting in Luxembourg in January 1989, it was agreed that Research and Development expenditures should be treated, in the revised SNA, as capital formation. The full (draft) report on the meeting notes that "The question of how to classify R & D assets ... remains to be determined" (paragraph 29). In which transaction in the flow accounts and asset category in the balance sheets R and D assets should be recorded: gross capital formation, intangibles or "development expenditures" ? (See Hill's text, Ch. V, paras. 119-120, 148-150).

2. Assuming that R & D assets are to be treated in the revised SNA in an analogous fashion to other capital assets, they will need to be broken down according to institutional sector and according to kind of activities (for market producers) or function/purpose (for non-market producers). The outstanding question is whether R & D expenditures should also be broken down according to type - i.e. a breakdown analogous to "transport equipment", "machinery and equipment", "land improvements", etc. which is used for fixed capital assets.

3. In the "Frascati Manual", the only classification of R & D by "type" is the two-way classification of R & D into natural sciences and engineering (NSE) and social sciences and humanities (SSH). This two-way split is a simplified version of the UNESCO classification of "Fields of Science and Technology". The Frascati Manual's "NSE" covers the first four main groups of this classification, namely natural sciences, engineering and technology, medical sciences and agricultural sciences, while SSH covers social sciences (e.g. ethnography, economics and psychology) and humanities (e.g. languages, religion and art criticism).

4. The full UNESCO classification is not currently used for R & D statistics and for reasons of data availability it is most unlikely that it will be applied in the foreseeable future. It should also be noted that for most countries total R & D expenditures will be smaller than the smallest type of capital good distinguished in the present SNA. For these two reasons, it would be unreasonable to suggest that R & D expenditures should be classified according to the full UNESCO classification. The realistic alternatives are no breakdown at all or the two-way split between NSE and SSH.

5. In favour of no breakdown, it was noted above that R & D is already a relatively small number. It is also clear that the NSE/SSH breakdown overlaps to an important extent with the institutional breakdown. Most NSE is performed by the corporate enterprise sector, while most SSH is performed by general government and private non-profit institutions. Introducing an NSE/SSH split will therefore impose an additional reporting burden on countries without adding very much new information.

6. In favour of the two-way split it can be argued that it corresponds to an important economic distinction. NSE is the component of R & D most likely to generate future income and should for that reason be shown separately from SSH whose contribution to future output is much less certain. Moreover, although there is some overlap between the NSE/SSH split and the classification by institutional sectors, it is by no means a perfect overlap; governments perform some NSE - notably in agriculture and medicine - and some corporate enterprises, e.g. private profit-making universities and possibly

some service industries, perform some SSH. Finally it should be noted that in the ISIC, (Revision 3) research and development activities (ISIC 73) are broken down into R & D on natural sciences and engineering (731) and R & D on social sciences and humanities (732).

C. Categorization of software

1. Following the recommendations of SNA Expert Groups (Vienna 1988 and Luxembourg 1989) that software should be treated as capital assets, the question that is still to be resolved is whether it should be classified as a reproducible tangible asset or as a non-financial intangible asset. (See Vienna Report, para. 177, Summary of Main Conclusions, para. 72; and Luxembourg Reports, paras. 32-34, Summary and Conclusions, paras. 8-10).

2. There appear to be two arguments in favour of treating software as an intangible asset. First it is a "service" and second it has a high "intellectual content": it is argued that the purchaser of software is not really buying a physical object such as a diskette or an instruction manual but rather the intangible "brain-power" that went into the creation of the software. Neither of these arguments seem wholly convincing.

3. Packaged software, which probably accounts for about half of total software output in OECD countries, is clearly not a service and in the revised ISIC it is correctly described as the output of a manufacturing activity (ISIC 2320). Moreover whether or not software is a "service" appears to be irrelevant for deciding whether or not it should be treated as a tangible asset since tangible assets already include "services" - namely major repairs and modifications to buildings and machinery as well as dealers' margins on sales of second-hand assets. The "intellectual content" argument also seems dubious since assets like computers, robots and communications satellites - which are incontestably tangible assets - may contain at least as much "brain-power" as many types of software.

4. Intangible non-financial assets consist of rights. They may be rights to exploit natural resources such as mineral deposits or rights to exploit intellectual property such as patented inventions. The purchaser of an intangible asset makes a lump sum payment to acquire the legal title to the mineral deposit or to the new invention. A software company may acquire an intangible asset by paying a lump sum to the inventor of a new type of software and the company will then reproduce the new software on tape or diskette for sale to owners of computers. But the software users can hardly be said to be acquiring an intangible asset when they purchase the tapes or diskettes containing the software. They are acquiring a capital asset which they will use in a productive process in precisely the same way as they use computers and other pieces of equipment. These considerations lead to the conclusion that software should be classified as a tangible reproducible asset.

D. Total income and consumption (Ch. VI, paras. 12 and 87)

1. SNA Expert Groups at Florence (1987) and Vienna (1988) both agreed that consumption expenditure should remain the central aggregate of the revised System. However, the Florence meeting also recommended that a concept of total consumption should occupy a central place in the revised SNA and for this purpose it agreed to introduce it as an additional concept by showing five components of consumption in the summary accounts: collective consumption by government, individual consumption by government, collective consumption by PNPIs, individual consumption by PNPIs, and individual consumption by households. The meeting also proposed the compilation of a total income concept as a counterpart of total consumption. The view was expressed that total income play a less important role in income statistics than total consumption in consumption statistics. Participants will have before them a short paper prepared by EUROSTAT that shows how the concept of total consumption and income could be introduced into the SNA and the implications for income flows for households, government and income.

E. Government services provided to market producers

1. The revised SNA will identify those parts of government consumption that are consumed by individual households and these will be included in an enlarged measure of household consumption. However, some components of government consumption are consumed on an individual basis by enterprises; examples include services of infrastructure, particularly roads, agricultural extension, materials testing, issuing building permits and testing freight and passenger vehicles.

2. The first question for participants is whether they wish the revised SNA specifically to identify government expenditures that are consumed by enterprises on an individual basis. If the answer is yes, the next question is whether these expenditures should be treated as intermediate consumption of producers or be shown as a separate component of government consumption expenditure. If the latter is preferred, should they be included in the main accounts or be shown as a memorandum item.

F. Black market and artificial exchange rates

1. The Vienna expert group on production accounts discussed in detail the treatment of exchange rate differentials. It recommended that in general prices of products with different exchange rates should be recorded on the basis of the actual rates of exchange. However, different treatments were recommended for the exchange rates differentials depending on the causes of these differentials. If they were regular differences between purchase and sales prices of foreign currency under stable monetary conditions, the difference should be treated as a bank service charge. If the differences are caused by changes over time of the value of the foreign currency due to domestic inflation, the differentials should be treated as a capital gain or loss of the bank involved in the operation. In the case of multiple exchange rates that are the result of official exchange rate policies, the difference should be treated as a tax, insofar these differentials are received by the official authorities such as the Central Bank.

2. As prices of transactions are not changed, the differential is always dealt with as a global adjustment in the external account, so that anomalous differences between purchase and sales price of the foreign currency does not distort the external balances in terms of local currency.

3. The taxes or subsidies for each transaction are calculated as the difference between the value of those transactions at the actual exchange rate and a so-called unitary rate. The distribution of the total difference between product taxes, income taxes and wealth taxes is made on the basis of a unitary rate, which is calculated as the weighted average of all transactions in the external account.

Three questions remain open:

(i) How to treat the differential if it is not received by the Central Bank as an official executor of government exchange rate policy, but by commercial banks or by units operating in the black market. Should those differentials be treated as bank service charges? They cannot be treated as taxes, as only the government can receive taxes. The differentials are close to the types that are sales - purchase differentials in times of stable monetary conditions. The difference between the black market or commercial market rate and the official rate may be very large indeed, but the transactions in this market are in a closed circuit of sellers and purchasers of foreign currency what the foreign currency so that what the foreign currency dealers receive is generally a relatively modest difference between sales and purchase price of foreign currency. Some of these transactions may not concern the external account, as the foreign currency is often used as means of transaction local transactions. The only instances where it would be doubtful to treat the difference as a service charge would be when the foreign exchange is legally or illegally moved from the official to the black or commercial market and sudden differences will occur that could hardly be termed bank service charges. Those have much more the character of capital gains.

(ii) The second question which remained open after the Vienna discussion is how the taxes imputed to the government as a result of multiple exchange rate policies, are transferred to the Central Bank if the Central Bank is the institution, which executes the government exchange rate policy. Should the transfers be treated between the government and the central bank as a current transfer and thus affect saving, or should it be dealt with as a capital transfer.

(iii) A third element, which was not discussed at all in previous meetings, has occurred as a result of the application of the SNA in countries with centrally planned economies, where artificial exchange rates are used in foreign transactions. The official rates are supplemented by extra transfers from the government to for instance exporters in order to supplement their low revenues obtained from exports as a result of artificially low exchange rates for exports. In this case, should the principle of recording transactions at their actual price be maintained in the case of these artificial rates and the supplementary payment be treated as a transfer between domestic sectors, or should the payment be treated as a subsidy to the exporters, which would in effect alter the artificial exchange rate to a different level in which the supplementary payment would be reflected?

PRODUCTION ACCOUNTS BY INDUSTRY AND INPUT-OUTPUT TABLES (Ch.VII)

A. Statistical units

1. There are a number of discrepancies between the SNA and ISIC texts as they stand at present in respect of the statistical units. There is no justification for these differences hence the Statistical Commission requested that they should be removed. The first meeting among ISIC and SNA experts took place on April 26 and 27; this contributed to taking stock of the differences and to better understanding its reasons; however, no agreement has been reached yet on how to reconcile them.

2. In view of the UNSO the two main tasks to be achieved are the following: (1) To downgrade in the ISIC the "autonomy of decision" criterion from the main to a secondary level in respect of the defintion of the establishment, and (2) to attach larger importance in the SNA to the operational definition of the establishment in addition to its theoretical definition. (This requested change refers to an earlier draft of the chapter on "Production Accounts by Industry and Input-Output Tables". It is possible that the new draft meets - partly or entirely - this requirement.)

TAXES AND OTHER TRANSFERS (Ch.VIII)

A. Is Symmetrical Treatment of Current and Capital Transfers for Donors and Recipients Absolutely Necessary?

1. To arrive at a consistent total for the saving or dissaving of the economy as a whole, the present SNA requires symmetric treatment of current and capital transfers in the accounts of donors and recipients. This can introduce distortions into the accounts of individual sectors, however, when the classification of transfers differs from the nature and use of the transfers, particularly if transfers are classified by source, but also if transfers are classified by purpose and the donor's and recipient's perceptions differ as to whether a transfer is given for current or capital purposes. In an attempt to avoid the distortions in sector accounts which can result from classifying transfers by their character in other sectors, the January 1989 Coordinating Group meeting in Luxembourg recommended that consideration be given to whether symmetric treatment by donors and recipients is absolutely necessary and, if not, how asymmetries could be accomodated.

2. Accommodation of asymmetries resulting from the treatment of transfers in sector accounts in accordance with their nature within the sector would require provision for such asymmetries in consolidation of the sector accounts into the accounts of the economy as a whole. Explicit adjustment items for intersectoral asymmetries would have to be included in both the

income and outlay account and the capital accumulation account, either in the accounts of each affected sector, or in the accounts of the economy as a whole; presentation only in a separate intersectoral adjustment account, while possible, would probably complicate matrix presentations of the sectors and the total economy. While adoption of the purpose, rather than source, principle for the current vs. capital classification of transfers would reduce the need for correction of intersectoral asymmetries, it would not eliminate it completely, because of occasional differences in donor and recipient perception of transfers' purposes. The question posed, therefore, is whether removal of distortions in sector accounts so as to reflect actual sector behavior and permit consolidation of sector accounts into consistent and correct accounts for the economy as a whole warrants the provision of explicit intersectoral adjustment items reflecting asymmetries in the classification of transfers.

3. A short paper prepared by the OECD provides a numerical example showing the effects of asymmetric treatment of transfers on the measurement of savings and on the savings and investment balance.

B. Hierarchy of criteria to distinguish between current and capital transfers

1. Discussions at a number of Expert Group meetings have determined that a current-capital distinction should be applied to transfers. The January 1989 Coordinating Group meeting in Luxembourg attributed ambiguities in the classification of particular transfers to the use of different criteria and recommended that a hierarchy of criteria be established (See "Summary and Conclusions" of the meeting para.45). The criteria cited were:

1. the source of funds for the transfer,
2. the purpose for which the transfer is given,
3. the magnitude of the transfer, and
4. the frequency or regularity with which the transfer is given.

AGENDA AND SUGGESTED ISSUES FOR DISCUSSION

CHAPTER II: OVERVIEW OF THE SYSTEM

Introduction (page 4-7)

Main categories of the system (page 7-19)

Accounts (page 19-43)

Do participants agree that the production acccunts be split into two parts - production accounts and primary distribution of income accounts, the latter being subdivided into generation and appropriation accounts (see page 21)?

The last of these accounts (2.2) has been split into two accounts mainly in order to produce the entrepreneurial income account. Is this useful (see page 22)?

P. Hill has proposed that entrepreneurial income of certain types of proudcers should be allocated entirely to compensation of employees or operating surplus (chapter III). Might this be considered an alternative?

Both traditional disposable income and adjusted disposable income (and consumption) are shown in the use of income accounts (see page 24). Do participants agree?

In the capital accounts (see page 25) changes in net worth due to saving and net capital transfers are now identified. Do participants consider this an improvement?

The reconciliation accounts of the present SNA has been subdivided into two accounts -- accounts 8 and 9 (see page 26). The firtst shows changes in the physical stock of assets, while the second shows revaluations. Is this an improvement?

Do participants agree with the accounting implications of recommendations by the SNA Expert Group meeting in Vienna that basic prices be used instead of market prices in valuing output and imports (see for example pages 21 and 54)?

In the accounts for the rest of the world, the current account has been divided into an external trade and a current income account in order to identify the trade balance as distinct from the current external balance (see page 40). Do participants agree with this breakdwon and with terminology used?

In discussing the aggregates (see page 42), it is proposed to introduce a new aggregate called national expenditure consisting of final consumption and capital formation. Do participants agree?

Comprehensive Tables (page 44-70)

In the supply and use table, imports are distributed to uses together with domestic supply (see page 54). Do participants agree with this or would they prefer to identify imports-separately in the uses and if so, according to what classification?

Imports are valued cif in the breakdown by type of goods and services in the supply and use table and fob in the T-accounts. In order to link the two valuations, adjustment items are introduced in the supply and use tables (see page 54). Do participants agree with the adjustments between the two types of valuations?

Should the breakdown by institutional sectors (and in particular the identification of the household sector) be added to the inudstry breakdown in the supply and use table (see page 54)?

In which accounts can the formal/informal distinction be introduced, if countries so wish?

Do participants agree that the simplified accounts (page 69-70) present the most important features of the system?

Broader view of the system (page 71-82)

Do participants agree with the general orientation developed in pages 73-74 for satellite accounts?

Do participants agree that it is useful to present in the SNA examples of how to use the system in a flexible manner and are the examples presented in the pages 71-75 appropriate?

UNITED NATIONS

STATISTICAL Office

ESA/STAT/AC.34/4/Add.2
17 July 1989

ENGLISH ONLY

Expert Group Meeting on
SNA Co-ordination
New York, 12-21 July 1989

AGENDA AND SUGGESTED ISSUES FOR DISCUSSION, ADD.2

Prepared by:

Inter-Secretariat Working Group

17 July 1989

ANNOTATED AGENDA EXPERT GROUP SNA COORDINATION, (Addendum 2)
New York 12-21 July

CHAPTER V THE PRODUCTION ACCOUNTS (Production boundary, output and intermediate consumption)

1. The production boundary, paras. 1-38
   a. Production boundary within households: imputed rent of owner occupied dwellings, treatment of repairs and maintenance for owner occupied dwellings
   b. Illegal activities and transactions

2 Market output, general principles, paras. 39-77

3. Market output, selected types of producers, paras. 78-106
   a. Separate establishments for own account capital formation, research and development and mineral exploration
   b. Output of insurance enterprises
   c. Output of other financial intermediaries (banks)

4. Non-market output, paras. 107-123

5. Intermediate consumption, paras. 124-160

6. Value added, paras. 161-190

CHAPTER VI FINAL EXPENDITURES (including CHAPTER V THE PRODUCTION ACCOUNTS - Capital expenditures)

1. Final consumption, general principles, paras. 1--27
   Are households the only final consumers ?
2. Final consumption expenditures, paras. 28-52
3. Total versus individual consumption, paras. 53-97
   Individual versus collective consumption, coverage and treatment; enlarged consumption (terminology)
   Government services provided to market producers
   Is national consumption the only concept at all levels of aggregation or should territorial consumption continue to be used in detailed classifications
4. Gross capital formation, paras. 98-134
   Consumer durables as a store of wealth
   Research and development, mineral exploration, intellectual property, software: intermediate consumption or capital formation (what is the asset ?)
   Military expenditures, consumption versus capital formation
   Capital transfers in kind to be included in capital formation
   Coverage of stocks: stocks for resale, government strategic stocks, losses in stocks of trade, stocks of market regulatory agencies
   Work in progress in services,
   Valuation of stocks, valuation of output of storage, changes in stocks in business accounts
   Coverage, valuation and treatment of natural growth products: agricultural crops, livestock, orchards, timber tracts etc.
   Links between capital formation and capital stock in the balance sheets
5. Consumption of fixed capital, paras. 135-161
   Use of the alternative terms: consumption of fixed capital, amortization, depreciation
6. Exports and imports of goods, paras. 162-187
   Criteria to determine whether processing of goods abroad should be recorded gross or net in exports and imports: processing involves significant or insignificant changes in the product
7. Exports and imports of services, paras. 188-223
   Multiple exchange rates

CHAPTER VII PRODUCTION ACCOUNTS FOR INDUSTRIES AND THE INPUT-OUTPUT TABLES (including CHAPTER V THE PRODUCTION ACCOUNTS - Value added; and CHAPTER II OVERVIEW OF THE SYSTEM - Valuation))

1. Statistical units, paras. 6-48

a. Should the emphasis in the exposition of input-output tables be based on the ideal establishment criterion (one product, one location) or should it more prominently take into account the practical occurrence of secondary production ?
b. Is there a need for the term "main activity" (covering principal and secondary activities) as distinct from "ancillary activity" ?
c. Should the term "industry" be used encompassing market and non-market producers ?
d. Is it acceptable to base the distinction between market and non-market activities on the criterion that more or less than 50% of the cost is covered by sales ?

2. The make and use matrices, paras. 68-89

a. Valuation of output, intermediate consumption and value added; treatment of product taxes
b. Should the exposition on resources and uses (Tables A, B, and C) be based on the terms intermediate and final purchases of goods and services or apply the terminology intermediate consumption and final demand ?
c. Use of the term "output" to replace the term "gross output"
d. Definition of purchasers' prices in the valuation of intermediate and final demand, taking into account the non-allocation to sectors of import duties and deductible taxes
e. Use of VAT or a more general term to explain the treatment of deductible taxes
f. Use of the terms: primary income versus factor income and factor cost; primary factors of production
g. Gross operating surplus: Is it entirely a residual item or could it be measured directly ?
h. Should the generally accepted terms "make" and "use" matrix be used even though these terms do not reflect accurately their content ?

3. Symmetric input-output tables, paras. 90-106
4. Final expenditures and gross value added, paras. 106-133
5. Valuation including VAT, paras. 134-153