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New York 12-21 July 1989

REPORT OF THE MEETING

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REVISION OF THE SNA

Report of the Second meeting of the Co-ordinating Group

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12 - 21 July 1989

Introduction

(1) The meeting was opened on Wednesday, 12th July by Mr. William Seltzer, the Director of the United Nations Statistical Office. He welcomed the participants to New York, remarking that this was the first meeting to be held at the United Nations headquarters since the meeting in March 1982 which made the original recommendation to the Statistical Commission that the SNA should be revised. The accomplishments to date of the review process are due to the willingness of all concerned to move beyond their own local conditions and to consider countries at different stages of development and with different structures. The degree of co-operation between the international organisations has been note-worthy and could be a model for international development in other fields. He expressed his thanks to the Regional Commissions, the core experts and the authors of the draft. He went on to cite a number of accomplishments so far achieved. A more balanced view is taken of input/output within the overall framework of national accounts and increased attention is given to the place of consumption and the role of the income and outlay and capital formation accounts. These changes of emphasis should make national accounts more operational and useful in areas other than production. Recognition is being given to the role of the household sector which is particularly important in developing countries given their concerns with the measurements of poverty and the role of women in development. The integration of the balance sheets with the flow accounts was also seen as a major achievement of the present revision. Lastly he wished to mention the harmonization with related systems particularly with those of the IMF, the interest in a joint orientation with the MPS system and the development of environmental accounts.

(2) This meeting and the one to be held in September are fundamentally different from preceding meetings because they will be concerned primarily with looking at the draft rather than working through a list of specified substantive items. It should be noted, however, that sixteen working days was very little time in which to review such a comprehensive draft. The balance between how many changes could be discussed in a full meeting and how many should be submitted in writing or communication to the authors on a bilateral basis would have to be worked out. Altogether the meeting promised to be challenging and he wished the participants well in facing these challenges.

(3) Jagdish Kumar was then elected chairman of the meeting. He called on Jan Van Tongren of the UNSO to introduce the agenda and explain how the meeting was to be conducted. Before the meeting participants had been invited to submit to UNSO a list of paragraph numbers where they found difficulty with the text. These had been grouped into a number of issues. The first group concerned queries over the general presentation of the draft. The second concerned unresolved issues; as far as possible these were dealt with in detail in the suggested issues paper number ESA/STAT/AC.34/4. The third concerned points in the text where participants felt the conclusions of earlier expert groups had been misinterpreted or omitted. Anyone wishing to add items to the list of issues to be discussed was invited to notify the secretariat as the meeting

progressed. There was also some discussion about the status of parts of the drafts that have yet to be made available to the participants and when these were to be discussed. This matter, however, was taken up later in the meeting also and a full resume of the position is given in the last section of this report.

General Presentation of the Draft

(4) Peter Hill was then asked to introduce the chapters he had prepared that were due for discussion at this meeting. These were chapter III on Institutional units and residence; chapter IV on Sectors and sub sectors; chapter V on Production accounts; chapter VI on Final expenditures and chapter VII on Production accounts for industries and the input/output tables. Peter explained that drafting is a process of evolution and that the drafts should be regarded as work in progress. Some restructuring and rebalancing was obviously needed but he felt that these changes would be presentational rather than ones of substance. He had taken the mandate to the Statistical Commission to clarify and simplify the exposition very seriously. However, because the SNA was such a remarkable intellectual construct it is not easy to present it in a simple way. He had placed much emphasis on the rationalisation for decisions on the classification of items and quoted as one example the treatment of household services where it is not easy to explain exactly why these are excluded from the production boundary. However, he felt developing a rationalisation would lead to greater precision because when a new phenomenon not explicitly covered in the system emerges it would then be possible to see how it can be allocated in accordance with the general principles of the system. This working out of a rationalisation, however, leads on occasion to querying present treatments in a number of instances and may lead to the acceptance of change in the system.

(5) Although many people had expressed a desire to have concise and precise definitions included in the text he felt it was very often not possible to compress into a sentence ideas and rationalisations that may take one or more paragraphs to explain. Many issues had emerged that had not been dealt with explicitly by previous expert groups and where the existing treatment may have been overtaken by events. He concluded by asking the participants to let him have comments in writing, especially if they felt the views of the expert groups had not been faithfully recorded and reflected in the draft. The first major issue for discussion, he felt, should be to hear comments on the overall approach and balance of the text as a whole.

(6) Many participants commented very positively on the added clarity given to the text by the method of exposition adopted and the desire to give rationalisations for the key decisions to be made. The text was felt to be much simpler and much more straightforward than the existing Blue Book and it was a pleasure to read. It will make the system much more accessible to a wider audience and should result in a better standard of national accounting. Despite these numerous favourable comments there were a number of serious reservations expressed by several experts. From the beginning of the revision process the European system of accounts (ESA) had been pointed to as a model which could usefully be emulated not in terms of the exact definitions and coverage of the system it described but in its manner of presentation which was felt to be lucid and easy to use as a reference document. When the first version of some of Peter Hill's text became available last September the need was expressed to complement this text by a series of definitions similar to the presentation in ESA. So far this has not been done. Despite the difficulty in making definitions both precise and concise, the need to embody information in a concise form so as to permit the document to be used as a reference document was expressed by many participants but it was stressed that this should be in

addition to rather than a replacement for any of the existing text before the group. One participant suggested that the existing draft works towards a system of national accounts from observing the 'real world' and working towards the categories embodied in the SNA whereas a manual such as ESA adopts the reverse position and describes the system from the inside as it were. The approach adopted by Peter Hill may give problems with definitions; the second approach may give problems with providing a detailed rationale. The question is whether both can be reconciled in a way that would not be overly voluminous and risk contradictions. It was undoubtedly easier to compile a document such as ESA for a relatively small set of fairly homogeneous countries than it is to describe the SNA for the whole population of countries.

(7) Despite all these difficulties the need to include cross referencinginformation in the Blue Book as well as detailed tables and classifications is recognised by UNSO and such information will be included in the final draft.

(8) Several participants thought such complementary information should be made available before the draft is circulated to the wider audience of the Regional Commissions and National Statistical Offices currently planned for early 1990. It is natural to expect there may be some resistance to a document which suggests changes and it was felt that this posssibly negative reaction should be counteracted as far as possible by presenting the text in such a way that it would be received very positively. It was felt that the text in its existing form would attract many of the criticisms that had been made in this meeting and therefore the possibility of delaying sending out the text should be considered. Mr. Seltzer, who had listened to the discussion, replied that he felt it would be difficult to postpone the series of Regional Commission meetings that were already being planned for 1990 and that they should have the best version of the text currently available to them for those meetings. A wide range of options still remains open to the Statistical Commission in 1991. They will have available a text revised to take account of this meeting and the one in September 1989 plus the reports from the Regional Commissions. The Statistical Commission could then decide (1) to adopt the text as it stands subject only to minor amendments; (2) to defer consideration until the Statistical Commission meeting in 1993 after further substantive work had been completed or (3) some intermediate process, for example involving the reconvening of the expert group in, say, 1991.

Institutional Units and Sectors

(9) On Wednesday afternoon the discussion turned to a consideration of Chapters III and IV on Institutional units and Sectors and sub sectors.

(10) Many participants felt that these two chapters were unbalanced and included a large degree of duplication particularly as far as the sub sectors of financial institutions were concerned. They hoped this would be reviewed in the redrafting process.

(11) Several participants felt that the description of the way of institutional units are grouped into sectors was from an entirely operational point of view. The split between financial and non-financial institutions is stated to be according to 'different criterion' than the earlier split between corporations, households and government. The financial and non-financial split is according to economic function but no criteria for the first three way split is given. It was felt that from within the system it is important that economic functions are a fundamental criterion for determining all sectors and this should be made clear in the text.

(12) The inclusion of non-profit institutions serving households in the household sector was raised again. This had been a decision made at the Household Sector meeting in Florence but it was not unanimous and several participants reminded the group that they were uncomfortable with this decision. It was pointed out that in Africa, for example, NPI's could as well be grouped with corporations or government as with households and the regional meeting at ECA had opposed the merger with the household sector.

(13) The text uses the expression 'enterprise' to cover any institutional unit engaged in production. This means that it is used for both market and non-market producers as well as for all forms of production within households including, for example, the output from the ownership of dwellings. After discussion it was agreed that the term enterprise should strictly only be used in connection with market producers and should not be used in connection with non-market producers, for example government. There was no unanimous agreement about whether the expression 'unincorporated enterprises' should be used for all the productive activities of households or not. It was recognised that output of ownership of dwellings and of domestic servants, for example, were different in kind from small scale production. It was also felt that it was stretching the common sense of the word enterprises to use this in connection with the activities of a shoe shine boy, for example. At the same time it was recognised that a single expression needed to be used in the text to describe all of the productive activities of households and since unincorporated enterprise is the expression used in the present Blue Book and thus familiar to users of the accounts this expression will continue to be used for the time being. Arising out of this discussion, however, and confirmed at a number of points later in the meeting it was agreed that at some stage towards the end of the revision process there will be a need to review the terminology used throughout the system to ensure that it is appropriate and consistent. It was felt that it would be particularly undesirable to retain the same word(s) from the existing SNA to the new system but with a changed meaning. If the meaning was to be changed it was felt it would be appropriate to find a new term to cover this.

(14) The discussion then turned to a consideration of the sections describing the characteristics of government. Several people remarked that it was difficult to make valid generalisations about governments since their characteristics varied so much from country to country. For example, not all countries have a written constitution; collective services may be provided not on grounds of economic efficiency but in response to a social consensus. On the other hand there is a marked difference in the cost structure of production, receipts and the relationship between them for a market producer compared with government. Since central government includes the parliament and the judiciary it seems inappropriate to describe this as a single institutional unit. A number of detailed drafting points were made as well. For example, it would be better to use the expression 'entitled to collect taxes' rather than to 'raise taxes' since this latter implied entitled to increase the value of, rather than levy, taxes.

(15) In paragraphs 129, 130 and 132 similar reservations where expressed about the characteristics of state provincial and local government as had been expressed for central government. The appropriate treatment of intermediate levels of government, that is whether state, provincial or regional government should be treated as central or local, is covered explicitly in the GFS manual which gives wider criterion for the existence of other levels of government and these may be grouped differently depending on their functions rather than as suggested in paragraph 130. On a wide range of issues such as these, both general and specific, the IMF will provide detailed drafting suggestions to Peter Hill.

(16) In Chapter III paragraphs 90, 91 and 137 deal with the treatment of pension funds. It was agreed that the last sentence in paragraph 91 needs qualifying since it does not apply to public sector funds. Government employees pension funds are not included in the public sector even if they are obliged by law to invest in government securities. A query was raised in connection with paragraph 90 wondering whether it is possible to have a voluntary scheme organised by public authorities. This seems to contradict paragraph 137.

(17) In paragraphs 90 and 91 the draft uses the expression 'scheme' and 'fund' as synonyms in an inappropriate way. 'Schemes' should be used in connection with unfunded pension schemes which cannot be institutional units. From the institutional point of view only funds will be included in the sub sector insurance corporations and pension funds.

(18) A similar inappropriate interchange of 'scheme' and 'fund' occurs in the discussion of social security funds in paragraphs 127, 131, 134 - 138 and others. In addition some redrafting in connection with paragraph 127 and others is necessary in connection with the treatment of social security funds for analytical purposes.

(19) A number of participants recalled that the Public Sector meeting made clear that it would sometimes be useful to present data for the whole of the public sector and they felt it would be helpful to include a section in Chapter IV describing how this could be done. This would be covered also in the annex to the Blue Book describing the links with GFS. The breakdown of financial and non-financial institutions between public and private will be covered in Chapter II, the overview of the system. Despite these assurances, several participants felt that greater emphasis needed to be given to the public sector in connection with the description of sectorization in general.

(20) The meeting then turned to a discussion on whether there were units in government that should be treated as unincorporated enterprises rather than quasi corporations. It was felt that the first and last sentences of paragraph 120 were contradictory and that the definition of quasi corporations adopted elsewhere (specifically that they should have separate accounts and withdrawals from income should be clearly identifiable) was the only basis on which a quasi corporation should be identified. Other participants suggested that in connection with government an important criteria was whether the sales were to other government departments or not and whether the prices charged were 'market' prices or not. There was no immediate agreement as to whether these latter criteria should be taken into account or whether the only important factor was that revenue from sales had to cover at least 50% of the costs (which determined that the producer was a market producer) and had a full set of accounts. Because resolution could not be easily achieved a small sub group was set up to discuss the matter further. Though they produced a report, time was not available to discuss this and the report is held over for discussion until the September meeting.

(21) The distinction between market and non-market producers is important not only intrinsically but because of the implications for the treatment of payments by government to loss making producers. If they are regarded as market producers they will have negative operating surplus and receive a subsidy. If they are non-market producers they will have neither. It therefore is unsatisfactory to have a situation in which they may be treated as market producers in one year and non-market producers in another. This raises the possibility that the output of a non-market producer might not always be valued at cost but rather that if it sells the whole of its output even at a loss then the sale should be equated with output. The market/non-market distinction applies in principle to products, producers and institutional units but to determine whether a producer (an establishment) is market or non-market it is

necessary to consider total output and not the output of just one product. It was generally agreed that only market producers can be quasi corporations and therefore the problem largely amounted to determining when government producers of goods and services should be treated as market producers.

Harmonization of SNA and ISIC

(22) On Thursday morning the group was joined by Michael Beekman, lately head of the Classifications Unit at UNSO, and Jacob Ryten of Statistics Canada, to discuss the differences in definitions of establishments and enterprises between the SNA and ISIC. The discussion was introduced by Laszlo Drechsler Of UNSO who referred to three of the background papers ESA/STAT/AC.34/15 'Statistical units: some actual issues', ESA/STAT/AC.34/16 'Introduction to international standard industrial classification: Rev III', and ESA/STAT/AC.34/18 'Treatment of statistical units in the latest drafts of SNA and the introduction to ISIC'. In the previous version of the SNA and ISIC an establishment was defined conceptually as a unit undertaking a homogeneous process of production at a single location. It was recognised that in practice many production processes are not as limited as this. As a compromise, therefore, it was recognised that more than one type of production may take place and the definition was relaxed so that operationally it was the smallest unit undertaking one or predominantly one process of production at a single location with a set of book-keeping data available. In the course of revising ISIC the business register group were especially concerned with how to apply the definition of an establishment in practice and moved from the homogeneity requirement constrained by data availablity to homogeneity constrained by autonomy of decision making. The view was that data availability was symptomatic of other problems. Data availability was supposed to be conditioned to the nature and scope of decisions to be taken in a firm and since it was this decision making aspect that drove the availability of data it seemed appropriate to incorporate this explicitly rather than data availability in the definition of an establishment.

(23) The implications of this change in definition were illustrated by an example. Suppose, for example, that a car factory makes cars incorporating clocks in an economy where there are also specialised car clock manufacturers and it is supposed that making cars and making clocks fall in different production groups. The question is whether the car factory which also manufactures car clocks should be treated as one establishment or two. If the autonomy of decision criteria is considered crucial it could be argued that there is only one establishment whereas under the previous definition it would be usual to say there were two establishments. As a further example consider a factory which makes both clocks and computers though with the same management but using quite different production processes. The traditional view would be to say that these again represented two establishments and clarification was sought as to whether under the proposed guidelines on autonomy this would remain as two establishments or become one because of the single management being exercised. In discussion it was suggested that the situation is rather more complicated than this simple example suggests. For example, if car factories typically include the production of car clocks then this would be the norm for a single establishment undertaking this activity. If only one factory includes car clocks then it should be treated as two establishments. Therefore it is necessary to take account of the distribution of the types of units as well as a simple enumeration of the production processes taking place. One of the objectives of the new ISIC definition is to avoid wholesale imputation across a wide range of productive activities. This brings the discussion back to considering the classification itself. If car production typically includes the production of car clocks then description of the the activity of car

production should make this clear. Then as far as possible the situation of having each unit engaging in only one kind of activity as specified in the classification will predominate. If a situation results where extensive inputations are necessary this is indicative that the activity classification is not well attuned to the needs of the economy being considered.

(24) As far as enterprises are concerned, the SNA defines an enterprise as the smallest legal unit with a complete set of accounts (or conceptually capable of producing a complete set of accounts). The business register group has been much exercised by the growing practice of dividing producing units into separate legal entities most of which supply ancillary services back to the main producing unit. For example it is not unknown for all the staff to constitute a separate legal entity which sells their services to the production process, for the capital stock to be held by a separate legal entity and for the selling operation to be separated legally. Although these entities are legally separate the separation is artificial when viewed from the economic point of view. The definition in the new ISIC therefore is intended to cope with this circumstance and say when this happens the individual legal entities should be consolidated to recover a self contained productive process which would itself be treated as a single enterprise. As further justification it was pointed out that ISIC is used for many purposes other than those in the SNA including, for example, the demography of enterprises. A legal entity has three purposes; firstly as a unit of registration; secondly the means by which the business communicates with the tax authorities and thirdly (optionally) as a means of communication with the shareholders, though in more complex organisations this may not be undertaken at the level of individual legal entities. Despite this legal organisation businesses choose other ways of organising themselves on a day to day basis and the internal book-keeping records reflect these operational organisations. Only once a year does the information get mapped back to the legal form. In numerous simple businesses or where the business is organised along lines of the legal organisation there is no problem in consolidating legal units. Typically for some industrialised countries this now applies only to the trivial and less interesting cases.

(25) Within the SNA the establishment is used as the basis for production accounts by industry and the input/output table. The enterprise is used as the statistical unit for the compilation of integrated accounts including income and outlay and capital formation accounts. The question before the group, therefore, was how far the concerns expressed by the business registers group should be taken into account in the SNA. Much emphasis has been laid in preparing the SNA draft in separating the conceptually correct definition from recommendations that temper this pure approach with practical considerations. However it was felt that the text relating to production accounts is perhaps too purist and the fact that secondary production does frequently take place and must be dealt with within the system should be mentioned in closer proximity to the original definition of an establishment than is presently the case. But the question still remained as to whether the approximation to the ideal establishment should be based on data availability or autonomy.

(26) Several participants said they understood why ISIC favoured the concept of autonomy and felt it may well influence the availability of data. On the other hand it was felt that this was not relevant for statistical purposes because it is a criteria that cannot be measured with statistical tools. Does autonomy mean the freedom to decide what to produce, how to produce it, when to produce it or all of these? The ambiguity of the concept makes it dangerous as a principle to apply. On the other hand having a set of book-keeping data establishes that autonomy exists. This may not be an ideal criteria but it is workable. This leads to the suggestion that two sorts of units are necessary. The first is what came to be called an observation unit which is essentially an observational unit defined with economic data and economic criterion. In order

to determine the operating surplus it may be necessary to have a fairly large heterogeneous establishment because of the need for a full profit and loss account even if not a balance sheet. On the other hand to study production from a technical point of view as in the Leontief input/output matrix the homogeneity of production is crucially important but these units may only exist analytically and be derived specifically in the context of deriving a commodity by commodity input/output table. This would mean the concept of a homogeneous unit of production was retained in the SNA but it would be described only as an analytical unit and not as an establishment.

(27) Several speakers pointed out that the increasing sophistication of internal book-keeping practices allied with the power of computers meant that in many cases information was available at a level of detail much greater than that covered in the activity classifications. It was generally agreed that in such cases the fact that detailed data existed was not a reason to create establishments below the level of detail in the activity classification. On the other hand where separate data were available for activities which were separated in the classification but under a single unified management in general it would be desirable to treat these as separate establishments. Homogeneity of production is not an absolute concept but is related to the classification of economic activity.

(28) Turning to the question of enterprises it was remarked that the fact that institutional units are legal entities does not necessarily imply that all legal entities should be treated as institutional units. It was recognised that it would usually be sensible to treat separate legal entities as institutional units but the need for some exceptions were recognised. It was suggested that these exceptions should cover the case where only ancilary activities were undertaken in separate legal entities and that the whole of the production of these entities was sold to another unit under the same single unit of ownership. Some reservations were expressed about this. Relaxing the constraint that sales have to be to units with the same single owner and the possibility of consolidating vertically integrated enterprises was also mentioned but these were not generally received with sympathy. A suggestion was made that the definition should refer to the smallest group of legal entities under the same ownership and control authorised to consolidate their accounts but this was felt to be unworkable on an international basis because of the difference in legal practices from one country to another.

(29) By the end of the morning's discussion it was clear that agreement in principle between the two groups was very near. It was recognised that the SNA had to admit that the ideal definition of the homogeneous unit of production could not be implemented in practice throughout the system. At the same time the impression that had previously been given that ISIC concentrated on the autonomy of decision as of overriding importance rather than being a secondary consideration was recognised as incorrect. Subsequent to the meeting a small sub group met to consider the matter further and it is expected that a revised version of the ISIC introduction will be available by the September meeting and it is hoped that this will be acceptable to the SNA expert group.

Institutional Units and Sectors Continued

(30) Earlier expert groups had decided to introduce a distinction between publicly controlled corporations, foreign controlled corporations and other domestic corporations. Considerable concern was expressed about the criterion of control suggested to identify 'control' in the first two cases. An enterprise is publicly controlled if 51% or more of its equity is owned by government or another public enterprise or if government exercises control over the corporations' economic behaviour even if it holds 50% or less of the equity. Foreign controlled corporations include resident branches and subsidiaries (defined as direct investment corporations) and may include associate companies, depending on a qualitative assessment by the individual country concerned of the degree of control effectively exercised.

(31) In paragraphs 49 - 51 direct investment corporations are defined using a 10% holding of the ordinary shares as indicative of control. The text in paragraph 51 is a direct quotation from the OECD detailed benchmark on direct investment guidelines but many participants expressed disquiet with these, in particular with the last sentence. This reads 'A direct investment enterprise is then defined as a corporate or unincorporate enterprise in which a single foreign investor as just defined either (a) controls 10% or more of the ordinary shares or voting power of a corporate enterprise . . . provided this allows the investor an effective voice in its management or (b) controls less than 10% of the ordinary shares or voting power of the enterprise but for other reasons has an effective voice in its management'. Participants could see no reason to introduce the figure of 10% in these sub paragraphs since together they amounted to saying the foreign investor had an effective voice in management. Further the introduction of the figure of 10% appeared to contradict the requirement of 51% holding for an enterprise to be publicly controlled. It would be possible to envisage a company whose equity was held 51% by government and 10% from abroad. How should it be categorized?

(32) On a related issue concern was expressed that the draft introduced the concepts both of direct investment enterprises and foreign controlled enterprises. These two concepts were similar but not identical and to keep both was likely to give rise to confusion. Discussion suggested that what was ideally required was foreign controlled enterprises but that in practice it was unlikely that a complete set of information would be available for these. Direct investment enterprises are identified through balance of payments accounting and it was felt that by identifying companies from this list it would be possible to compile a full set of accounts relating to income, flows of capital and information on assets for the company. In practice these companies would form the majority of foreign controlled companies and it was therefore suggested that reference to foreign controlled enterprises should be replaced by foreign direct investment enterprises as the practical recommendation to the made in the SNA. Again a small sub group was set up to look into the problem and again time did not permit taking this matter up. The sub-group suggested amendments to the draft which will be considered at the September meeting.

(33) A number of drafting points were then made in connection with other paragraphs relating to the treatment of legal and social entities recognised as institutional units. The heading above paragraph 44 includes with word non-governmental and it was suggested that this might be misleading since paragraph 34 includes explicitly public corporations. It was also pointed out that NPIs funded by government should be included in the itemised list in paragraph 44 but are not. Also in connection with NPIs paragraphs 42 to 43 in Chapter IV talked about NPIs being 'owned' by government. This should be changed to refer to 'majority financed and controlled' and applies equally to the sections on central, state and local government.

(34) The discussion then turned to consideration of those parts of the chapters concerned with the household sector and this discussion carried into Friday morning. The first topic was the basis for sub sectoring the household sector and again concern was expressed that no rationale for this sub sectoring was given. It was suggested that the existence of an unincorporated enterprise within a household should always be sufficient to place this household in the category of either own account worker or employer regardless of whether or not the unincorporated enterprise constituted the major source of income. Various problems were seen with this approach. Much agriculture, even in developed countries, is undertaken on a part-time basis so many households are involved in this but it does not necessarily constitute a major source of income. If all production activities of households including ownership of dwellings were to be classed as unincorporated enterprises the vast majority of households would therefore fall into these categories and the distinction between type of households would be substantially lost. Several people expressed disquiet that sectoring of households should be done on the basis of the characteristics of a reference person but it was agreed that after long discussion this was the decision that had been taken at the Household Sector meeting and therefore it should be adhered to.

(35) It was agreed that the description 'other' for the fourth category of households (that is other than employers, own account workers and employees) was not descriptive and after some discussion it was agreed that this should be changed to 'recipients of property income and transfers'. It was then suggested that this category would then be broken down at the next lowest level of the hierarchy into recipients of property income, pensions and other transfers. There was some discussion about whether pensions should cover all pensions or simply retirement pensions, widows' and veterans' pensions being the two most obvious alternative source of pension income. There was also discussion about whether a skills level should be given for employees. Background paper ESA/STAT/AC.34/21 gave a classification of transactions and transactors. Here employees were broken down between high skills, medium skills and low skills. Several participants expressed reservations with this breakdown. It was not felt that these terms were sufficiently precise to lead to consistency over time and space. The view was also expressed that classification by the characteristic of a reference person in the area of skills would be a rather tenuous extension to a household as a whole. Again a small sub-group was set up to look into the problem of household classification and their report will be considered in September.

(36) The group was reminded that earlier the recommendation had been to suggest a distinction be made between formal and informal activity especially in relationship to unincorporated enterprises. It had been reported that the ILO was not in a position at this stage to define what was meant by formal activities and the question was raised whether this recommendation should then be dropped from the SNA. After discussion it was agreed that the recommendation to make a distinction between formal and informal activities should be preserved but it should be clearly stated that at present the ILO had not felt able to come to an international recommendation on this. A suggestion was made that it might be appropriate to treat all corporate and quasi corporate enterprises as formal and all unincorpoirated enterprises as informal but this did not receive unanimous agreement from the group and should not be recommended in the SNA.

(37) There was discussion about what name was appropriate for the sector as a whole since it included all of conventional households, persons living in institutional households, unincorporated enterprises attached to households and non-profit institutions serving households. After lengthy discussion it was agreed that the term households should be used to describe the sector as a whole which would be divided into two sub sectors - households excluding non-profit institution serving households and non-profit institution serving households.

(38) It was pointed out that the <u>order of</u> discussion of <u>sectors</u> in Chapter II 'The overview of the system' and in these chapters on institutional units and sectors were different. Because of the expert groups' expressed wishes to give great prominence to consumption and the household sector in general, Peter Hill had put this sector ahead of corporations and government in his text. While the participants welcomed this emphasis they felt it would be helpful to preserve the same order in discussing the sectors throughout all parts of the draft. One reason for discussing households last is that it is in some sense a residual sector and it is difficult to explain unincorporated enterprises before corporate enterprises have been discussed. It was agreed it would be desirable to keep to the ordering in the existing SNA (whereby non-financial and financial corporations preceded government and households) as the order that would be used everywhere in the text.

(39) A number of detailed points on the sections dealing with <u>residence</u> were made. For example, in paragraph 146 it was thought that it was unnecessarily exaggerated to use 'indefinitely or over a finite but very long period of time' for what amounted in practice to one year or more. In paragraph 172 there is a problem on the interpretation of the parent enterprise of a ship given the complexities of international registration. Paragraph 174 talks about the problem of companies, for example airlines, owned jointly by several countries. The suggestion in the paragraph that the whole of the corporation might be allocated to the country in which the headquarters is situated is a new suggestion by the author and there is a need to provide an agreed rationale about when to do this or if the present recommendation is retained a rationale for why the enterprise should be apportioned between the participating countries. In paragraph 139 regional central banks need to be mentioned specifically. Are they to be treated as international organisations or apportioned between the countries that they represent? So far this latter has been the conventional treatment. In paragraph 145 it is felt it would be helpful to have specific mention of the problem of land brought for embassies; if an embassy acquires land is there still a need to impute a resident owner? The IMF have more drafting points along these lines and the meeting was agreeable to the idea that these would be passed to Peter Hill on a bilateral basis.

(40) Other problems emerged in relationship to residence of individuals, for example paragraphs 157 and 158 talk about students and assume they should remain part of the household in their country of origin. Because this is not the practice followed by survey statisticians (who treat them as separate households), this would mean that students were excluded from the resident population of both countries. Other borderline cases need spelling out, for example international civil servants, the families of government employees who are not diplomats and international military personnel.

(41) Several participants queried the use of the word 'intended' in determining residence since intention is necessarily difficult to identify. It appears for example but not exclusively in paragraphs 146 and 148. There is agreement on the underlying sense of these paragraphs that foreign companies should not suddenly change from being non-resident to resident a year and a day after they start work in the country but another form of words would be useful.

(42) The introductory sentence of the section on residence at paragraph 141 states 'residence is an attribute of institutional units'. This was felt to be a little sweeping given the need to create notional units for parts of corporations operating abroad.

(43) Paragraph 46 gives the characteristics of corporations and states that the prime function of a corporation is to produce goods and services for the market. Several participants felt that one of the prime characteristics of a corporation was to generate profits for the owner. Indeed in paragraph 100 NPIs contrasted with corporations by saying that although they produce goods and services they are not established for the purpose of generating income or financial return for the owners. There is a list of salient characteristics of corporations existing for the U.S. and this was offered to the author to help in redrafting paragraph 45. It was also pointed out however that since some countries are less aggressively free market than the U.S. there might need to be some tempering of this advocacy of the profit motive.

(44) Paragraph 63 refers to branches and this caused problems on two counts. Firstly there is the difficulty of translation into French of this concept and secondly that 'branch' is used in the ESA in a quite different context. The only need to mention branches in the SNA is in order to deal with foreign branches in connection with direct investment enterprises. The group suggested that the author should try to find a way of avoiding the word branch.

(45) The view was expressed that the whole section on NPIs might be rather too long though it was clearly necessary to draw attention to the different types of NPIs and where these were allocated within the various sectors. It was felt that greater attention could be drawn to the differences between market and non-market NPIs. In particular the heading over paragraph 110 is wrong; NPIs serving business are deemed to be market rather than non-market. It was suggested that in connection with NPIs serving households attention might be drawn more to the fact that they are non-market rather than they are non-profit institutions.

(46) Various points were made in respect of the text dealing with financial institutions. (1) It was felt that the list of enterprises and agencies given in paragraph 76 as auxiliary to financial intermediation needed reviewing; that dealers and commodity brokers were not financial auxiliaries. Further there is a reference to institutions engaged solely in hedging instruments. If they write the hedging instrument they should be regarded as a financial intermediary and therefore not an auxiliary. This point recurs in Chapter IV paragraph 36. (2) There seems to be a conflict between paragraph 59 which describes holding companies as not having any significant independent production of their own and paragraph 95 where there is reference to the nature of the activity of a holding corporation as being financial suggesting it may raise funds. A possible solution would be to delete paragraph 95. (3) Paragraph 96 suggests that regulatory bodies that are separate financial enterprises are to be included with the central bank. It is not clear why this should be so for bodies controlling insurance, for example. It is felt there should be a parallel with the treatment of holding companies.

Imputed Service Charge for Financial Intermediation

(47) Colin Pettigrew introduced his paper number ESA/STAT/AC.34/14 on this subject and also a paper written by Statistics Denmark ESA/STAT/AC.34/17. Although there were differences of detail the two papers were basically agreed that the use of a 'pure' interest rate was the appropriate way in which to allocate the service charge across users. Discussion of the two papers fell into three sections; firstly, a reconsideration of whether income from the investment of own funds should be included in the output of financial intermediaries; secondly, how the risk element in lending should be treated and thirdly, practical problems with defining the appropriate 'pure' interest rate.

(48) The group's decision taken most recently in January 1989 in Luxembourg that income from the investment of own funds should be excluded was reiterated. The function of financial intermediation is to match borrowers and lenders. If financial intermediaries were regarded as providing output on the investment of their own funds then so would other lenders generate output. This leads to a form of analysis advocated among others by Preetam Sunga, an approach which has been (as yet) rejected by most national accounts practitioners not least because multiple on-lending would give increasingly higher income output and consumption.

(49) The paper from Statistics Denmark suggested using a 'pure' interest rate as the basis of allocating service charges but wanted to identify and exclude a risk element which they referred to as an insurance element. Two possible ways of doing this was suggested; one to deduct write-offs of bad debts, the other to compare the interest rate on bank loans with that earned by an issue in the market. This was described as being ingenious but not practicable because households, for example, do not issue bonds and there would be problems for non-residents also. There is often a long interval between default and the writing-off of bad debts; this would give rise to problems in identifying when loans were written off and could lead to erratic fluctuations. The allocation across sectors would be difficult; should it be allocated across all sectors or to the sector of default? If the latter this could result in negative service charges occurring, increasing the output of the counterpart sector. On the whole it was felt that the parallel with insurance was misleading. Banks are not offering insurance as such except as a secondary service. The risk element is part of the cost of financial intermediation. For insurance companies if there is a claim it comes out of their technical reserves and only when the pool is exhausted is the default a claim on the insurance company's capital. For banks the opposite is true. Debts are written off against the bank's own capital, the funds of depositors are at risk only in the last resort. Some banks offer incentives to low risk borrowers so if a special allocation for risk was to be made this would be needed in both directions. On balance therefore the group came down in favour of not making an allowance for the risk element in borrowing. This meant that a higher rate of interest charged implies a different level of service with more service being rendered to the borrower at the higher interest rate. This was recognised as being an approximation which will not always reflect reality. For example, all credit card holders receive the same service though those that pay on time pay less interest (none) than others. While noting these imperfections, actual interest rates paid remain the best indicator to use as a proxy for the service rendered.

(50) There was considerable discussion about how the 'pure' interest rate should be determined. Two different situations were cited where more than one interest rate would need to be applied. The first of these is where borrowing and lending in respect of specific instruments is separable from other borrowing and lending. The case of marketable securities was quoted as an instance in point. The interest rate applicable to these securities may be different from the 'pure' interest rate applying to borrowing and lending more generally. The second instance is where government controls exist to fix rates to particular types of customers. The case of India was quoted where lending to agriculture concerns is kept by regulation at an artificially low rate. This is equivalent to cross subsidisation between type of customer and the concept of a 'pure' interest rate in these circumstances is difficult to apply. It was therefore suggested that instead of using the term 'pure' interest rate the exposition should be in terms of a reference rate. In principle the reference rate would be a relevant market rate which in some cases might have to be approximated by rates on inter bank loans or central bank lending rates. A similar but more extreme position to that cited for India was in centrally planned economies where banks are administering government policy and do not operate in a free market sense. Some participants argued that in these conditions banks should be

treated as part of general government rather than as financial intermediaries, though this is not the present position of the SNA or the IMF's Money and Banking and Government Finance Statistics.

(51) There was discussion about the appropriate interest rate to be used in connection with issues of bonds by financial intermediaries. One option would be to assume that the whole return on bonds is 'pure' interest, that is that no services are rendered in respect of bonds. It was felt that in some circumstances this would be the appropriate procedure. Banks have three types of liabilities: deposits, bonds issued on the market and loans received. Except in the case of depositors it is difficult to say that the receiving bank offers a service to the lender and this may be another case where a nil service charge is appropriate.

(52) For non-domestic lending and borrowing it would be appropriate to determine a reference rate for each currency. Questions were raised about how concessional loans should be handled and more generally about how estimates for imports of financial services should be made. Several participants expressed the wish that a paper considering these subjects explicitly might be considered at the September meeting but no commitment was made to produce such a paper.

(53) The last point for discussion was how far interest payments between financial intermediaries should be consolidated. Although the January meeting in Luxembourg had said that consolidation should not take place, at two subsequent meetings, one each at SOEC and OECD, the separate working parties on national accounts had said that consolidation was desirable. Interest payments between banks do not affect the level of output. If the service charge is to be distributed in proportion to interest paid and received using a reference rate it is possible to allocate a service charge to the sector but it is impossible to determine which bank produces and which consumes the service on the basis of the data alone. Because of the difficulty in interpreting this result it was therefore suggested that consolidation should take place. While this is true for a sub sector taken as a whole it is not true for any given financial intermediary where it would be possible to determine a measure of output taking into account interest payments and interest receipts for that one institution. In general it was agreed that consolidation would take place within the sub sectors of the financial corporate sector defined at the most detailed level but not above this. This means, for example, that no consolidation would take place between public and private institutions at each level of the hierarchy.

Overview of the System

(54) On Monday morning after the discussion on financial intermediation had been concluded discussion turned to a review of Chapter II 'An Overview of the System' prepared by Andre Vanoli. He introduced his paper in various sections, covering first pages 4 to 19. The objectives were firstly to present an overview of the system; secondly to present the sequence of accounts and accounting structure and thirdly to give an introduction to national accounting. This last topic is to be covered in Chapter I and Chapter II but given that Chapter I does not now exist it was not clear how far this topic needed to be covered in Chapter II. It is recognised that at this stage of drafting there may be a problem of balance and consistency between Chapter II and the other chapters.

(55) Many participants expressed their approval for the style in the introductory section aiming to give a gentle introduction to national accounting. Working up from the question of who does what to a more comprehensive view of the system was felt to be a helpful way of introducing the reasons for the various classifications undertaken in the system.

(56) Several participants remarked that they felt there was rather an abrupt change between the introductory section and the section which introduced the integrated accounts for the nation. It was clear also that there was some misunderstanding about the status of the accounts in this chapter. Several participants expressed alarm that the accounts given here are much less detailed than those appearing, for example, in Chapter VIII of the present Blue Book and that at this level of aggregation very few changes seem to have been made to the system suggesting that various concerns raised during the revision process have not been taken into account. This was felt to be especially so in respect of developing countries. Part of the reason for this misunderstanding was due to the omission of the classification of transactors and transactions which had been made available to the meeting in background paper ESA/STAT/AC.34/21. The text in Chapter II needed to make clear that an appreciation of the hierarchial classification of transactions given there is integral to an understanding of the accounts as presented. For simplicity only the highest level in the classification is shown in the accounts actually presented in Chapter II. This has been done deliberately in order to highlight the proposed new structure of the accounts. At the same time it needs to be made clear that more detailed tables, including the lower levels of the hierarchy of transactions, should be included elsehwere in the text presumably in those chapters that refer to the individual accounts. Considerable concern was expressed that the classification had not been made available in good time and it was not quite clear when this would be discussed explicitly. In particular it was felt that there were some items that had been omitted, for example the distinction between payments in cash and in kind, the identification of subsistence output and other transactions particularly important for developing countries. Mrs. Choudhury prepared a list of such items and it was agreed a revised version of the classification of transactions hierarchy would be prepared by the September meeting taking these items into account as far as was possible. It was hoped that this would meet in large part some of the concerns expressed in the meeting but there was general unease that the timetable presently before the group does not allow for a specific opportunity to discuss a redraft of this chapter taking this revised classification into account.

(57) Views were divided about how desirable it was to partition the existing three accounts of the SNA into the twelve shown in pages 21 through 27 (sixteen if sub divisions are counted). Some argued that introducing new balancing items and essentially dividing horizontally the previous accounts helped to make clear some of the aspects of flexibility of the system. On the other hand it was strongly urged that the text should explain why this horizontal sub division was desirable and what the function of each of the accounts was seen to be. It was also suggested that it was desirable to show how the accounts could be consolidated back to the forms more familiar in the existing SNA. Whether this should take place in Chapter II or in the Annex to the Blue Book explaining the links between the old and the new system remains to be decided but it is clear that such a link is essential to the understanding of people familiar with the existing system.

(58) Concern was also expressed that by presenting the integrated accounts for the nation before the input/output tables an incorrect impression of their relative priorities had been given. Although at several times in the past it has been stated that production accounts and input/output should have rather less emphasis in the new book than in the past one it was felt that this relegation of input/output tables to come so late in the chapter went too far, unless there was adequate explanatory text explaining why this order had been chosen and stating clearly that it did not imply a setting of priorities. The group was reminded again that since the first structure meeting the decision had been taken that the Blue Book should not lay down priorities for individual countries but that these should be determined according to individual needs. Nor was it necessarily suggested that every country should aim to compile all the accounts presented in Chapter II. This was largely an illustrative chapter explaining the inter connections in the accounts. Exact reporting structures and the way in which accounts are compiled for national purposes will be determined separately. The aim of this chapter is exclusively to expound the conceptual framework of the SNA.

(59) It was felt that an exposition on the purpose of these accounts was needed before going into details of what appeared on the use and what on the resource side of the accounts. This would be part presentational but also in part would give the rationale for the accounting structure. It would help reach out to those who are not use to accounting language and would force an articulation of the goals of the system.

(60) Some other suggestions were made about possible simplication of the chapter. It was suggested that a consolidated account for Table 2 should be included either as well as or replacing 2.1 and 2.2 which is itself split into 2.2.1 and 2.2.2. In addition it was suggested that a single Table 5 might be presented rather than the existing 5.1 and 5.2. However these two tables serve rather different purposes; 5.1 being linked with Table 3 and 5.2 with Table 4.

(61) There was also considerable discussion about whether or not a matrix presentation should be included in this chapter or not. Previous expert groups have endorsed the need for a matrix presentation in addition to T accounts but several participants felt that it was difficult to present a comprehensive view of the system via a matrix in a way that was not alienating in much the same way as Table 2.1 in the existing manual is. One solution might be to include the matrix at the end of the Blue Book after the reader has worked through all aspects of the system (this suggestion was also made in January). The group reaffirmed that a matrix presentation is desirable but left open for the moment the question of its location.

(62) At several points during the discussion the question of terminology was raised. Several participants felt that new terms had been introduced in this chapter without explanation. An opportunity needs to be found to discuss the whole question of terminology (both new and existing concepts) to ensure that the words used to describe these are truly appropriate, self-explanatory and not liable to give rise to confusion. This was recognised to be a real concern by everyone in the group but it was agreed to postpone consideration of terminology until nearer the end of the revision process when a comprehensive review of all terminology could be undertaken at the same time.

(63) On Tuesday the discussion turned to a much more specific consideration of the tables presented in Chapter II. The view was expressed that the tables presented in Chapter II should follow the book-keeping conventions with which users are familiar. Specifically the accounts should follow the double entry process and it was felt that this was not quite rigorously followed here and it was not always easy to find where the counterpart entry was. The balancing item should always appear as the bottom entry on the left hand side of an account and

be transferred to be the top entry on the right hand side of the succeeding account. (Some confusion on this score was raised because in Table 2.2.1 the top most right hand entry is given as gross primary income which is an error and should be replaced by gross operating surplus. That done, the balancing items do follow through from one account to another throughout the current accounts.) It was felt it would be better not to have entries appearing with negative signs but would be better to transfer these to the other side of the account where they could appear positively. It was also felt that it would be better not to show items net, for example taxes net of subsidies, but to include both items explicitly.

(64) Several participants felt that the presentation of the accounts was obscured by the fact that throughout the current accounts the balancing item is first shown gross, then consumption of fixed capital is entered and the balancing item shown net. This repetition throughout the accounts was felt to be unnecessary and unhelpful. There was no doubt that conceptually the right concept to show is net. In practice however given the difficulty of estimating consumption of fixed capital many practitioners will actually use gross balancing items. Further it is only by using gross balancing items that the integrated accounts (based on this full sequence of accounts) can show how balancing items lead to gross domestic product and gross income concepts. It was suggested that the balancing items might appear without any qualification as to whether they were gross or net and without the explicit appearance of consumption of fixed capital leaving the text to explain the two alternatives. It was felt that the text should lay greater emphasis on the availability of both gross and net domestic product principles and the fact that on occasion net domestic product may be a preferred concept to us if available and that the ubiquitous use of GDP as at present is not always strictly appropriate. However the proposal to leave the balancing items unqualified by gross or net in the prototype tables was not agreed to.

(65) There was discussion about separating the production account in the present SNA into two accounts; the first being a production account where the balancing item was gross valued added and the second a generation of income account where the other components of valued added are itemised and the balancing item is operating surplus. There was unanimous agreement that this separation was desirable. Some participants felt that the accounts could more usefully be numbered 1.1 and 1.2 rather than 1 and 2.1 as at present. Against this it was argued that unless the second account is grouped with account 2.2 the relationship of the accounts to the generation of primary income is lost. It was agreed that the balancing item in the production account should be gross value added; in the generation of income account it should be net operating surplus and net balancing items should be carried forward throughout subsequent accounts.

(66) There was general agreement that the concept of primary income linking to gross national income was useful and should be retained. There was less unanimous agreement about the disaggregation of account 2.2 into 2.2.1 and 2.2.2 with the intervening balancing item of entrepreneurial income. Several participants spoke in favour of the concept but wondered whether it was essential to include these two accounts in the main set of accounts as this might lead to rather greater attenuation of the accounts than was easily digestible at first sight by newcomers to the system.

(67) One of the attractions of the concept of entrepreneurial income is that this is closer to the business concept of profits than is operating surplus, especially in the case of unincorporated enterprises within households. At this point the discussion reverted to considering proposals made in Peter Hill's text about the treatment of operating surplus of unincorporated

particularly, for example, subsistence farming it might be more appropriate to attribute part or all of this as compensation of employees rather than operating surplus. There was a widespread feeling that this was not acceptable but that it was also misleading to talk about the operating surplus of unincorporated enterprises as the same concept as operating surplus of corporate enterprises. For unincorporated enterprises two elements are combined; one the wage element earned by the owner of the unincorporated enterprise (assuming he works in that enterprise) and the 'profit' element he generates. For these reasons it was felt that it would be appropriate to introduce a third component of value added to be called 'mixed income'. This would include all the net value added of unincorporated enterprises which could not unambiguously be identified either as compensation of employees or gross operating surplus. This last would be appropriate in the case where the owner of the unincorporated enterprise did not himself work in it. In general however the balancing item on the production account for households would in future be mixed income. This item should be shown not only in the household production account but in the integrated accounts for the nation so that in future value added would always be shown as being composed of compensation of employees, mixed income and gross operating surplus.

(68) This decision means that substantive redrafting is needed in Chapter III in the paragraphs 11 to 21 of the treatment of household production and at other points where reference is made to imputing a wage element of self employed persons working in unincorporated enterprises.

(69) Accounts 3, 4, 5.1 and 5.2 relate to <u>secondary distribution of income</u> and the use of disposable income. Accounts 4 and 5.2 relate to the concept of enlarged consumption with an implied element of income in kind being transferred to compensate the changes in consumption. If a country is not yet making the adjustment to distinguishing individual and collective consumption they would compile only Table 3 and Table 5.1. Given this link between the four tables some renumbering might be appropriate or a consolidated Table 5 might be preferable. Again there was discussion about terminology. In these tables actual final consumption is used instead of consumption or enlarged consumption. The objection to this last term is that while it is true that households have enlarged consumption government has a reduced consumption and therefore in a table that can be used for all sectors this terminology can be misleading. Actual final consumption however is also seriously misleading because elsewhere in the classification of transactors and transactions actual is used in contrast to imputed and in the context of Table 5.2 actual final consumption includes quite considerable amounts of imputed consumption. The expression adjusted disposable income was also felt to be unsatisfactory and at some stage better terminology for both these concepts needs to be found. It was pointed out that treating the individual consumption of government as a social transfer in kind was not equivalent to having an imputed cash transfer and matching cash expenditure. It is only the claim on and use of the resources that is transferred and this is what gives rise to the distinction between household consumption expenditure and household consumption and underlines the fact that this last is not an expenditure concept. Throughout most of the tables claims take the form of cash values but it is the claims that are of primary concern and not their cash values.

(70) The accounts 6 through 12 encompass the information presently included in the <u>capital finance account, balance sheet and reconciliation account</u> of the 1968 Blue Book and aim to meet the objective set by the group at earlier meetings to integrate these into a single presentation. The way this has been done is to disaggregate changes in net worth into a number of specific items, (i) changes in net worth due to saving and net capital transfers; (ii) changes in net worth due to other changes in volume of assets; (iii) real holding gains and losses due to changes in relative prices; (iv) revaluation in proportion to

general prices and (v) changes in sector classification. The first three of these are explained in Accounts 6, 8 and 9. However, to derive predetermined concepts on the right hand side of the accounts which are not balancing items, items have been transposed to appear on the counter intuitive side, often with a negative sign. Indeed in a number of instances, particularly on the revaluation account, the sign to be attached to an entry may give considerable problem to both the compiler and the reader of the accounts. By putting assets, liabilities, gains and losses all on the same side of the account, up to three sign reversals may be involved. In such a situation the desire to present the information in a T account has obscured the clarity of how to interpret the accounts.

(71) A number of proposals were made to improve the presentation. It was suggested splitting Table 6 into two parts. Table 6.1 would have net savings and capital transfers received on the right hand side, capital transfers payable and changes in net worth (as the balancing item) on the left hand side. Table 6.2 would have changes in net worth carrying down to the right hand side and consumption of fixed capital also there. On the left hand side it would have changes in stocks, gross fixed capital formation and the balancing item which would be net lending or borrowing as on the present table. For Tables 9, 10, 11 and 12 it was felt that a presentation more like the table on page 63 would be more easily understood. Reference was made to background document ESA/STAT/AC.34/22 where the accounting structure proposed in January had been implemented by the German Statistical Office and an account similar to that was included. In addition an addendum showed how each of the columns of that total could in turn be translated into a T account. It was generally agreed that this sort of presentation would be much easier to follow for most users.

(72) As far as Account 8 was concerned a number of participants had problems with the terminology used here and were not comfortable with the idea of describing the entries as transactions since no counterpart entry appeared. The reason for including them as transactions was to avoid resort to a reconciliation account which it had been agreed should be avoided in the new SNA. Consideration needs to be given to the description of these entries as transactions in connection with the definition of transactions given in other parts of the draft.

(73) Table 7 was discussed in connection with the balance sheet information beginning on page 61.

(74) There was then discussion of the <u>rest of the world accounts</u> on pages 40 and 41. It was felt the title of the first account 'external trade account' was inappropriate since it should be clear that the items covered are broader than just commodity trade, for example the table might be called the external balance in goods and services.

(75) On the current income account consideration needs to be given to the treatment of taxes on production and imports payable and receivable by the rest of the world. If taxes are routed directly through the external account then in moving from domestic product to national income it is necessary not only to allow for net factor income but also net taxes on production from abroad. This is a more complex transition and given that it is at the moment a problem peculiar to the EEC it would be undersirable to introduce it in the SNA generally.

(76) There are a number of errors and omissions in the tables as presented. For example, property income and reinvested earnings have been dropped from the items of current income, the qualifications payable to the rest of the world and receivable by the rest of the world imply flows in the same direction. These should be 'received from' on the left hand side of the account and 'paid to' on the right hand side of the account.

(77) It was remarked that it was probable that the revised SNA would treat capital transfers with the rest of the world differently from the revised IMF Balance of Payments Manual because of the difficulty of locating these appropriately within the balance of payments account but this issue has not yet been resolved. On the capital account the item net purchases of non-produced assets would better be called net purchases of intangibles. Non-produced assets includes land as well as intangibles but as land cannot be transacted in the external account only intangibles remain.

(78) It was felt that the title 'balance sheet for the external sector' was inappropriate and another terminology should be found. The IMF will advise on this.

(79) Discussion then turned to treatment of the aggregates on pages 42 and 43. It was suggested that the footnote on page 43 explaining the change in terminology from GNP to GNI should be raised to the body of the text because of the importance of this item. It was worth stating explicitly that national expenditure plus the balance of trade in goods and services was equal to gross domestic product. Because of the juxtaposition of the words national and domestic in this identity it was suggested that the SNA might like to use the expression domestic absorption instead of national expenditure.

(80) It had been agreed previously that national income should be adjusted for terms of trade effect and real income measures derived. Although agreement has not been reached on how this will be done, it is thought that these aggregates should probably be mentioned in this section. On page 42 the expression value added is introduced but since this does not have a common sense meaning it might be appropriate to include some more words to explain why this is such an important concept. Further down page 42 the reference to imports of goods and services is not f.o.b.

(81) On Wednesday morning discussion turned to a consideration of the integrated accounts of the nation given on pages 45 to 50. Back reference was also made to the goods and services account presented on page 38. It was felt that the sides of these accounts should be reversed so that it was clear that they could be derived in connection with the full sequence of accounts discussed earlier by applying the double entry book-keeping principle. Presenting the account in this way would also make it clearer how this account and the full sequence of accounts together were consolidated to form the integrated accounts of the nation. It was agreed that this title was inappropriate since it implied that other tables, for example goods and services, were not important and this was not the impression that was intended. There was some discussion about whether the goods and services columns should be included or not since they are essentially different in kind from the sector accounts that are presented and consolidated to form the national economy totals. On the whole it was felt they should be included in order to explain the balancing of the table but as mentioned previously more text will be necessary to explain this. Similar concerns were expressed about whether the total columns should be included or not. These have no economic significance but are useful in an expositionary table to make clear the balancing of the use and resource sides of the account. If they are not included the supposition is that readers trying to follow the text will do their own additions and insert them for clarity.

(82) There are a number of data errors and omissions in the table as printed at present and the printing style itself is not as helpful as possible. It is intended ultimately that pages 45 and 46 will appear side by side so that, for example, the first item of 1,093 that presently appears on page 45 without any explanatory text would be lined up with the right hand side text reading imports of goods and services. In Table 5 a different typeface should be used for final consumption and actual consumption to make it clear that these are alternative figures and should never be added together.

(83) Two major sets of queries resurfaced in connection with discussing this table, both of which are to be put off for resolution until the September meeting. The first of these was the integration of the other types of transactions relating particularly to household expenditure, for example the separation of monetary from non-monetary transactions and subsistence activity. The other was the question of valuation and whether these tables should be shown at basic or producer prices. At present output is presented in this table in basic prices but if changes are to be made then the presentation of taxes will have to change also. It was emphasised again in using this table the reader needs to be clear that it derives from the integration of the classification of transactors with classification by sector and more detailed tables can be derived by further disaggregation on each axis.

(84) A number of participants felt that the degree of detail given Account 7 was disproportionate to that given to other accounts. A superior level in the hierarchy of assets and liabilities would be necessary in order to redress the balance of importance between the sets of transactions in the various accounts.

(85) The discussion then turned to the consideration of the <u>supply and use table</u> given in page 54. Many participants expressed enthusiasm for this table but at the same time would like to see some changes made to its presentation and to the explanation of it. In particular it was felt it would be useful to explain why the table was useful, for example in undertaking supply and disposition balancing on a regular basis as an exercise distinct from compiling input/output tables. In the rush to mention input/output the commodity flow approach was nowhere mentioned.

(86) There was considerable discussion about the entries for the c.i.f to f.o.b adjustment for imports which is incorrectly shown in the draft as circulated. In the upper half of the table the minus sign in brackets under the goods column for imports should have next to it a plus sign in brackets under the services column. In the lower half of the table the minus sign in brackets under the goods column should be deleted and inserted instead in the services column. In this table the only reason for distinguishing separate columns for goods and services under imports and exports is so that these entries may be inserted. The c.i.f to f.o.b adjustment being discussed here is not the same as the c.i.f to f.o.b adjustment of imports of goods. For imports of goods only the adjustment relates to the total insurance and freight paid on these imports. In the supply and use table c.i.f to f.o.b adjustment applies to imports of good and services together and to exports of goods and services and relates only to that portion of freight and insurance on imported goods that are carried out by domestic producers. It has been agreed that the balance of payments and external account will not contain any reference to these items. At present in the SNA and in the future in the detailed input/output tables and supply and disposition tables this approach cannot be used because goods at a detailed commodity level are only available on a c.i.f basis. It is therefore necessary to make the adjustment referred to here, that is to add domestic insurance and freight on imports to the total for imports and treat them as a dummy export to compensate for this. This means that the balances on trade in goods and services and overall balance of payments accounts will not alter but the totals for goods and services will. It was clear [illegible] the table that

this distinction was not clearly understood by everyone and it was felt it could give rise to confusion in the Blue Book. It was suggested that one way to lessen the confusion might be to find another piece of terminology and to retain c.i.f and f.o.b as the distinction well understood between imports of goods including and excluding all insurance and freight and to use another pair of words to describe imports and exports of goods and services plus domestic insurance and freight on imports as distinct from the balance of payments goods and services totals.

(87) At the end of this discussion it was agreed that as important and necessary as this adjustment is, it was only likely to add confusion if this was introduced in Chapter II and it should rather be relocated to the chapter dealing with production accounts and the input/output table. This would mean that the table on page 54 could be simplified by collapsing the columns for imports and exports to be a single column and deleting the c.i.f to f.o.b adjustments for imports and exports.

(88) The table had been presented so that the industry by commodity sections on supply and use and imports and exports appeared one above the other. In practice however the table is likely to appear as a long horizontal stretch and it was felt it would be more helpful for the resource side to start with output then add imports, trade margins and taxes to thus reach purchasers' prices so that the order of reading from left to right would coincide with the way in which the numbers are built up. In addition some supplementary sub totals should be included, for example for total intermediate supply, total intermediate demand, total final consumption expenditure and total gross capital. It was felt that it was unnecessary to specify that market and non-market producers should both be represented by the full ISIC tabulation categories. For an illustrative table it would be sufficient to have one set of ISIC tabulation categories only and explain in the text that where appropriate these could be disaggregated between market and non-market producers especially since non-market producers are likely to be concentrated in few ISIC headings. A more detailed supply and use table in the input-output chapter would elaborate this. It was also suggested that it would be helpful to give some breakdown under goods and services by CPC section to make it clear to users that the rows correspond to individual products or groups of products. It should be emphasised that the table can serve a very useful purpose even if only very few commodities are distinguished.

(89) There was discussion about whether intermediate consumption should be disaggregated to show consumption of domestic production separately from imports but it was agreed that in a table of this kind it was more appropriate to have intermediate consumption in terms of total domestic supply only.

(90) On page 57 there is a section missing on analysis of the household sector. This is where it will be made clear that the new SNA has a change of emphasis towards displaying information on income distribution and consumption rather than concentrating almost exclusively on production on the current account. It will explain the reasons for introducing transactions disaggregated between monetary, non-monetary, cash in kind and barter etc and make reference to social accounting matrices though, of course, these relate to the whole economy and not exclusively to the household sector. This section will have to be drafted carefully because a number of participants felt that if the recommendations made had the nature of being optional extras there would be little incentive for countries, particularly developing countries, to implement them.

(91) Substantial discussion on the <u>transactions in financial instruments</u> is to be held over to September but there was discussion about the relative balance of this part of the chapter compared with the rest. On the whole participants felt that there were too many too extensive tables that involved a considerable amount of duplication with what had gone before. It was generally agreed that tables on pages 65 to 67 should be omitted from this chapter but those on pages 58 and 63 should be kept and possibly the one referred to (but not presently included) on page 61. It was agreed that the tables that should be included are those that identify special characteristics of financial analysis. Again reference was made to the need if possible to impose a higher level of aggregation on the classification of instruments so that the tables are not so voluminous even in this simplified presentation.

(92) In discussing the <u>simplified accounts for the nation</u> it was suggested that the first account presently entitled 'goods and services account' might more usefully be labeled 'the generation and use of gross domestic product'. On the second table under gross national income, consumption of fixed capital should appear leading to net national income before the adjustments to derive national disposable income which should also be presented net. Some tidying up is also necessary on the capital account to deal with the change from gross to net savings etc and it is felt that the consolidated accounts for the nation should include an account for the rest of the world.

(93) The discussion then turned to consideration of the items in <u>part II</u> beginning on page 71.

(94) The last sentence on page 71 should be redrafted to give greater emphasis to the desirability of separating foreign controlled from national private sectors as specified in the classification of transactors.

(95) In general it was felt it would be helpful to distinguish between tables and analyses that are in the Blue Book but not in Chapter II, those that are not in the Blue Book but for which the system can be used and those for which separate satellite accounts need to be developed, for example an analysis of the household sector including imputations for the provision of household services. Concern was expressed about the need to emphasis the desirability of compiling quarterly and regional accounts. It was felt that it was appropriate to say that in principle the SNA could be applied to any period of time including quarterly accounts though other aspects, for example seasonality, might also need to be taken into account. For regional needs the system does not apply in its entirety so easily and here it is more likely that further elaboration will be needed in a handbook. Andre Vanoli asked participants at the meeting to provide references to material on adaptations of the system that can be used as illustrative in this part of the chapter of the possible extensions of the SNA. One area where satellite accounts are already recognised to be of major importance is in dealing with the environment. Work is in hand separately on developing a handbook on national resource accounting. The process of deriving such a satellite account will be elaborated more fully in appropriate parts of the Blue Book including this opening chapter, though the logistics of timing suggests this will be done much nearer the final drafting stages when the natural resource accounting work is more fully developed.

(96) Section IV on page 77 relates to links between the SNA and other statistical frameworks and in particular those developed by the IMF who offered detailed comments in writing on this section to Andre Vanoli.

Market Output

(104) In paragraph 39 there is reference to input and outputs being valued at market prices. This is felt to be loose terminology since market prices is taken to be synonymous with purchasers prices and these transactions should be valued at either basic or producer prices.

(105) The reference to large capital goods in paragraph 59 and elsewhere should be reviewed in light of the discussion on this at the production account expert group meeting which is summarised in the long report paragraphs 162 through 164.

(106) There was considerable discussion about the substance of paragraph 63 which concerned the valuing of agricultural crops. This paragraph had been influenced by considerations of conditions of hyper inflation where storage of crops may result in a large holding gain being registered when the crop is sold. However the way the paragraph is drafted it suggests that all appreciation in value between harvest and selling time is due to stock appreciation. This is not the conclusion from earlier meetings where it was recognised that the act of storing crops also legitimately contributes to output, partly because it prevents deterioration of the goods and partly because it is an entrepreneurial activity to arrange to sell goods out of season. It was agreed that this was indeed the appropriate practice and the paragraph should be redrafted to allow for this. (The output of storage, of course, is not restricted to agricultural products but this typifies the problem.)

(107) A related problem comes up in the immediately preceding paragraphs where there is talk about valuing work in progress in standing crops. Where such production is the output of an unincorporated enterprise there is no payment corresponding to compensation of employees (see the earlier discussion on mixed income) which in turn raises the question of how work in progress would be valued.

(108) In discussing the separation of stock changes from holding gains and losses, in particular in paragraph 53, it would be appropriate to make clear that it is only possible to estimate a volume measure of stock change if unambiguous physical measures of stock exist which may not be so for complex products. Where these measures are not available it is necessary to work from the information available in business accounts. In paragraph 51 it is only the real holding gain that is a type of profit not the nominal holding gain.

(109) A question was raised in respect of paragraph 69 where it is stated that production for own intermediate consumption should not be part of the output of an establishment. This implies, for example, that grain used as seed does not count as part of the output of agriculture and electricity used in the generation of further electricity is also excluded. It was confirmed that this is the consequence of the decisions on output made in the Production Accounts meeting.

(110) There is a reference in paragraph 73 to barter transactions and a statement that these are likely to be small in developed countries. Instances can be quoted where, for example, oil is bartered for other products and in respect of east European countries with strict exchange control regulations.

(111) At various points throughout this chapter and, for example, in paragraph 74 there is reference to the creation of separate establishments for non-principal production. Here the reference is to own account construction. It was agreed in the light of the discussion on establishments and ISIC that these recommendations would be less stringent. References to the divisions of ISIC in paragraph 69 and elsewhere should be replaced by sections under the new terminology.

(112) The section on the output of insurance enterprises, paragraph 99 to 105, reflects ambiguities in the discussion at the January meeting of the paper on the treatment of insurance output. In the report of the meeting the calculation of the service charge for insurance refers to changes in technical reserves but it was stated that this should refer to changes in actuarial reserves. Drafting changes reflecting the consequence of this change will be passed to Peter Hill.

Intermediate Consumption

(113) Paragraphs 125 and 126 distinguish two types of intermediate inputs but the reason for this distinction is not clear.

(114) In paragraph 128 (iii) the discussion of purchasers prices must be clarified to deal with the different cases of basic prices, producer prices with the existence of deductable taxes and producer prices without deductable taxes.

(115) In paragraph 133 it is thought it would be more appropriate to use the expression factors of production rather than primary factors of production.

(116) In paragraphs 134 through 137 there are a number of borderline cases relating to intermediate consumption and compensation of employees. It was felt that it was too sophisticated to treat business travel as intermediate consumption and allowance for meals and accommodation to be treated as compensation of employees and it was agreed that all of them should be treated as intermediate consumption. The question of the value in cash of the provision of interest free loans was raised. In principle this should probably be treated as compensation of employees but if income in kind is regarded as something with a matching expenditure in kind it is clear that such a payment does not represent an income in kind but rather is an imputed cash transaction. One problem with introducing this concept into compensation of employees would be the need to introduce analogous imputations elsewhere in the accounts, for example government sometimes lends below market rates, say to public corporations. Should these be accompanied by imputed flows to be treated as grants? How would the difference between fixed and variable rate loans be treated? Because of these considerations this item was left pending until factor incomes are discussed in greater detail in the September meeting.

(117) Paragraphs 139 to 140 refer to the treatment of small tools. It is felt that in some developing countries there will be no capital equipment recorded in agriculture and small manufacturing if small tools are excluded. The recommendation should be reworded to reflect that the decision on what to include and exclude from fixed capital should depend on the relative importance of the items in question for the whole economy and in relation to a firm's turnover. It was also felt that the degree of skill needed to utilise a tool was not a criterion for deciding whether it was capital or not. The reference in paragraph 144 to obligation being a criteria to identify repairs and maintenance as intermediate consumption was queried as not being operationally convincing.

Value Added

(118) Paragraph 164 lists a number of ways in which the ratio of intermediate consumption to total output may be affected. Another reason would be, for example, the use of temporary staff from an agency rather than use of own staff.

(119) Although the substantive issues of valuation were deferred for discussion later there was discussion about the terminology to be used. The 1968 SNA does not use the expression 'at factor cost' but uses rather 'at factor income' and avoids speaking of factors of production. A number of reservations were expressed about the use of factors of production in the present text.

(120) It was also felt that the text needed to be expanded to discuss the treatment of insurance output and pension funds.

Chapter VI: Final Consumption

(121) The discussion of this chapter did not begin until the middle of Thursday morning. The last sentence in paragraph 8 reads 'only households can be final consumers'. This was felt to be unnecessarily emphatic since it could be argued that collective services are, in fact, consumed by society as a whole rather than individuals in households. While there is a need to draw attention to the fact that individual and collective consumption both benefit households the picture presented here is too extreme.

(122) In the discussion on the difference between individual and collective consumption many of the points were repeated that were made in connection with Chapter II about the terminology for enlarged or total consumption and that the transfer of individual consumption from government to households does not have to be seen as an imputed transfer in cash. Having made the point in the introduction about the distinction between expenditure, acquisition and use this should be drawn on explaining the treatment of consumption that follows.

(123) Expenditure by tourists is referred to in paragraph 54. Consumption in the economic territory is the concept that has to be used for commodity flow work and is the basis of price index quotations. This paragraph therefore seems rather dismissive in saying this is to be regarded only as a working figure and not one of the main aggregates of the system. Within a supply and use table a similar adjustment is needed to household consumption as is needed on the c.i.f to f.o.b adjustment for imports and exports (this should appear in Chapter VII) but the group was not convinced that a special name was necessary for this concept.

(124) This was felt to be symptomatic of a number of instances throughout the draft where statements were true only in the aggregate but not at the detailed level and therefore the approach adopted could not be used in the context of a detailed supply and disposition table. Another example given was that if all renovation work is to be treated as construction then it must be made clear that equipment used in the repair of elevators, for example, must be treated as intermediate consumption of the construction industry. At various points there was a need to consider whether the solutions proposed work in an input/output context. Brian Newson from EUROSTAT offered to give a list of such examples to Peter Hill.

(125) Another problem area was the treatment of secondhand goods mentioned in paragraph 28. It was felt the last sentence was too sweeping. More explanation needed to be given that sales of secondhand goods by households should be treated as negative expenditure and that on disaggregation both the positive and negative entries needed to appear. In general, however, the treatment of secondhand goods throughout the whole system has not been comprehensively covered and somewhere a synthesis of the appropriate treatments should be included. Other areas to which the same comment applied was the treatment of black market purchases, the treatment of non-commodity sales by government and domestic services.

(126) The explanation in paragraph 34 that the expense incurred by owner occupiers on repairs and maintenance should be treated as intermediate consumption and not double counted in expenditure along with the output of owner occupation needed clarification.

(127) The text in paragraph 87(b) needs to be made more rigorous. It is not that cash income is spent on imputed expenditure, rather that some cash intermediate expenditure may be incurred in generating imputed output which in turn is imputed expenditure. While the net operating surplus may be smaller than the output produced it is not likely to be generally true that it will only be a small fraction of the output produced.

Intellectual Property

(128) Carol Carson introduced background paper ESA/STAT/AC.34/19 'Intellectual property and related rights in economic accounts'. At the Co-ordinating group meeting in Luxembourg in January 1989, Carol Carson volunteered to investigate what was meant by intellectual property so as to clarify the extent of the economic activity that was being considered for treatment as fixed capital. She thought initially this was a problem of looking at the boundary of capital but it turns out there are problems that were not previously recognised which have an impact on the production boundary. The identification and treatment of intellectual property is intimately bound up with the national accounts concept and treatment of intangible non-financial assets and in particular the treatment of patents, copyrights and trade marks and of royalties which the SNA defines as the payments for (income from) the use of these assets. Pursuing legal definitions of the terms used and consulting with WIPO (World Intellectual Property Organisation) leads to the conclusion that the terms used in the Blue Book are used loosely and in a heuristic way which do not correspond with legal definitions in any one country. A fortiori the guidelines are not applicable to all countries.

(129) The problem can be illustrated with reference to copyright and royalties. Copyright is not the right to publish a book. It is the right of the author to be identified with the work and establishes his 'ownership' of the intellectual property. In many countries this right is inalienable and the author cannot transfer the copyright to anyone. One consequence which does not accord with the treatment suggested in the Blue Book is that transactions in intangible non-financial assets cannot be recorded in respect of transfer of ownership of the copyright because this cannot occur. In other countries where the author can transfer the copyright, there is another consequence that does not accord with the Blue Book treatment. Payments to authors who have transferred the copyright to a publisher are not royalties in the SNA sense.

(130) Paragraph 7.52 of the present Blue Book states that authoring a book is not included in the measurement of gross output. This leads to the following anomalous situation. If a writer works for a firm who acquires the right to publish his work under the terms of his employment his activity is regarded as output of the firm. This is so also if he works on contract to the firm. However if he writes on his own account for publication it is not output. This implies that the production boundary is defined not in terms of the activity undertaken but in terms of the contract of employment and the means by which the product is sold. One possible resolution of this anomaly would be to treat the activity always as falling within the production boundary. The question then would be whether the output would ever be treated as an asset. The parallel with the argument on research and development would suggest that because the output could give rise to income in future it could be treated as an asset and like R and D would involve the treatment of service output as capital formation.

(131) The case of patents is clearly related to expenditure on research and development. If R and D is treated as capital formation then including patents also as assets would lead to double counting of assets in the balance sheet. The problem is that the value of the patent may bear no obvious relationship to the value of R and D that has been treated as capital (assuming the present recommendation stands). A solution in line with other national accounts procedures would be to suggest that R and D expenditure should enter the balance sheet at its cost of production and that changes in this value in respect of the value put on patents should be entered as what are now revaluation changes in the balance sheet. (These changes could, of course, go in either direction).

(132) The third type of item cited as non-financial intangible assets are trade marks. These do not have to be registered, have an infinite life length and have a value that is in no obvious way related to the cost of their production. They have a closer parallel with the goodwill of an enterprise than they do with any of its other assets and it could be argued therefore that the national accounts treatment of trade marks should be similar to the treatment of goodwill, and not be treated as assets.

(133) A possible reinterpretation of the treatment of intellectual endeavour would be to say that all intellectual activity should be included within the production boundary. In so far as it is service output, some of it, for example research and development, and some creation of intellectual property (specifically defined perhaps as in paragraph 10 of Carol Carson's paper) may be treated as capital formation. The type of asset needs yet to be defined but it would be the result of a productive activity and not 'intangible' as defined in the 1968 SNA, and so would not give rise to property income.

(134) Several participants spoke in favour of treating the activity of producing a book or a film etc as being within the production boundary regardless of the terms under which it was produced. The example of a film was quoted. There are three alternative sources of income from it. (1) The company making the film might have its own cinemas and charge an extrance fee which would represent a service charge. (2) The film company might make videos and sell them. This would represent production of goods and generate income. (3) The film company might give the right to show the film to another cinema in which case the income obtained would be property income and lie outside the production boundary. The proposal made was to treat this income from the right to show the film as a service charge rather than property income. It was also pointed out that in the definition of 'miscellaneous commodities' in Table 6.4 classifying imports and exports of goods and services, rental of films is included in the same category as rental of plant and equipment without further qualification.

(135) It is possible that the production of the service is spread over time, in the film the income generated may be $15 million ($8 million in the second and $7 million in the third year) as against the cost of $10 million to manufacture the film in the first year. This implies the need to record work in progress of services. At the end of the first year the output is $10 million all treated as work in progress. In the second year the income is $8 million with stocks run down to $2 million and in year three the income is $7 million with the stocks eliminated.

(136) It was confirmed that for many entertainment companies the annual reports record the value of films, for example, as inventories or non-current assets. Only four OECD countries reported anything on net purchase of intangible assets in their national accounts and of these three were in respect of land, mineral deposits, timber etc. The question arose of where, for example, trade marks showed up. One possibility is that these were incorporated with other purchases, for example of whole companies. Whatever the answer it is clear that the intention of the present SNA is not being followed.

(137) Partly for lack of time and partly because the subject impacted so directly on the treatment of factor incomes which is on the agenda for September remaining discussion on this topic was postponed till then.

Gross Capital Formation Other

(138) The treatment of military hardware proposed in paragraph 105 whereby destructive military weapons and the equipment to deliver such weapons is treated as current expenditure but other structures will be treated as capital was confirmed by the group.

(139) It was thought that the treatment of small calculators in paragraph 104 was probably too generous in allocating some of these to capital formation. The treatment of natural assets described in paragraphs 120 and 138 must be reviewed after a discussion on the treatment of natural growth has been undertaken in September.

(140) The listing of the components of stocks in paragraph 126 should be augmented to include stocks held by wholesalers and retailers. In addition, under point 4 it should be clear that all stocks held by general government should now be included not just stocks held for strategic reasons.

(141) The reference to capital transfers in paragraphs 98 and 99 as being a component of gross capital formation should be restricted to capital transfers in kind.

(142) The section from paragraphs 135 to 161 on consumption of fixed capital was thought to be rather long and dwells too much on the mechanics of the perpetual inventory method. It was felt that this discussion would fit better in the context of description of the balance sheets in Chapter XI. There also needs to be description about the nature of capital formation and capital stock. Users tend to assume that capital stock continues to contribute at 100% of its capacity throughout its useful life. The text here is implying that by half way through its useful life it is only 50% utilised because of the depreciation process. Throughout this section care needed to be taken in the use of the words depreciation and amortization and in many places consumption of fixed capital would be the appropriate expression.

Exports and Imports

(143) In general this section was welcomed but it was felt slightly anomalous in paragraph 163 to get so deeply into the characteristics of services before having adequately discussed goods. Some drafting points will be submitted to Peter Hill on this. It is suggested that the top sentence on page 58 should be amended to say that because trade in services is different in character from trade in goods they are treated differently.

(144) There was some discussion about the treatment of imports c.i.f and f.o.b in paragraphs 186 and 187. One suggestion was that a full stop should be inserted after external accounts on line 2 of page 70 and the rest of paragraph of 186 and the whole of 187 deleted. Only that part of freight and insurance rendered by non-residents is included in goods and services on the balance of payments account. The complications that occur for the supply and disposition table should probably be relocated to Chapter VII and not included here. There is discussion about how imports and exports are recorded not only in relation to physical movement but more properly on a change of ownership basis. However the c.i.f to f.o.b adjustments relate essentially to physical movement and it is not clear what the c.i.f value of goods not entering the territory but still regarded as imports should be. Some rationalisation should be given for the appropriate treatment. A number of detailed drafting points on this whole section will be passed to Peter Hill by the IMF.

(145) As presently written paragraph 192 discusses the different perceptions enterprises have of themselves. Since this seems to open the way to manipulate the accounts to suit policy purposes as a legitimate procedure it is suggested that this be changed so that the last part of the paragraph reads 'However such a branch would be classified in the system as a quasi corporation which is resident in the country in which it operates thus contributing to the GDP of that country instead of the GDP of the country in which the parent enterprise is located', end of paragraph, the last sentence being deleted.

Future Progress

(146) On Friday morning after the report of the meeting was agreed there was discussion about how the future work of this group would proceed. The main document for reference was background paper ESA/STAT/AC.34.5 'The outline of the revised SNA'.

(147) This meeting had discussed the proposed Chapters II, III, IV, V and VI except for measures of value added and valuation, the treatment of natural growth, multiple exchange rates and the conclusion of three sub groups that had been set up that dealing with the distinction between market and non-market producers, that dealing with the foreign controlled and direct investment enterprises and that dealing with household sub sectors. All of these exceptions would be deferred to the September meeting as would consideration of Chapter VII originally scheduled for discussion at this meeting. Also for discussion in September would be Chapter VIII on taxes and other transfers and Chapter IX on factor and property income, both of which are now available. In addition, Chapter X on the components of capital accounts and Chapter XI on the balance sheets would be discussed but these were not yet available but would be available soon. Chapter XII on price and volume change and Chapter XIII on satellite accounts and adaption of the SNA to special conditions would be available later and also be discussed in September. In order to expedite discussion Peter Hill and Andre Vanoli would be asked to identify those areas where they had difficulty in drafting the text either because the concepts were

of the expert groups. The first priority would be to concentrate on outstanding issues and the second priority would be to look in detail at the draft. Some other parts of the draft Blue Book would also be available by September. These were a revised classification of transactors and transactions, a revised version of the SNA matrix (part of this was distributed on Friday as background paper ESA/STAT/AC.34/24 entitled 'Additional tables') and a preliminary indication of how the glossary might proceed.

(148) Although revisions had been suggested to the text discussed so far these revisions would not be available in September and it was not at the moment proposed that the redrafts should be subject to formal discussion in this group.

(149) After September but by the end of December all documentation would become available. This would include the revised drafts of all the chapters discussed at this meeting and to be discussed in September. In addition, Chapter I on an introduction to the system would be provided; Chapter XIV on accounting rules; the tentative text of Annex 2 on the relationship between the SNA and IMF systems and MPS; Annex 3 showing the differences between the present and revised SNA; Annex 4 on population and employment. Preliminary drafts of Annex 5 on the detailed treatment of changes in stocks and work in progress and Annex 6 on leasing and renting already exist and have been distributed to participants.

(150) After September it will be necessary to set up a good form of communication between all the participants of this group. There need not be complete agreement on the text before it is sent to the Regional Commissions but there needs to be an understanding that the text is in a suitable form to be sent out. All participants will be invited to send in their comments on the parts of the text as they are received. While the material is being discussed in the Regional Commissions work will continue on the glossary. Since this work consists in large part of indexing and cross referencing the text by definition it is impossible to complete it until the whole of the text is more or less complete but items to be added there will not add to the substance of the manual. Depending on the type of reaction met with when the text receives its wider distribution it may be possible to have a meeting of this Co-ordinating group towards the end of 1990 when the reports from the Regional Commissions have been received and another after the Statistical Commission has been held in early 1991.

(151) A number of participants expressed their concern about exactly how the logistics of preparing the final draft would be organised and it is expected that this will be discussed further at the September meeting.

(152) The meeting on the links between the SNA and MPS is scheduled to be held in Moscow from the 4th to the 8th December, 1989.

SUMMARY AND CONCLUSIONS

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

General

1. The Expert Group on SNA Co-ordination noted that the Statistical Office of the United Nations Secretariat intend to circulate the draft of the revised System of National Accounts in early 1990, though it will not have been possible for the Group to discuss all chapters of the draft. It will be sent to the expert group, the Regional Commissions and to statistical agencies of member countries and all comments received will be presented to the Statistical Commission at its meeting in 1991 together with the draft itself.

2. There was general agreement that the draft chapters so far available substantially fulfill the goal of clarification.

3. In addition to normal editing, the text should be augmented by concise descriptions.

Institutional units and sectors (Chapters III and IV)

4. The Group agreed that institutional units are grouped into sectors by reference to their economic fucntion. This should be made clear in the text.

5. The term "enterprises" should only be used to refer to market producers.

6. The Group was uneasy about describing all productive activities of households (including ownership of dwellings) as being performed by "unincorporated enterprises".

7. It was agreed that a number of drafting changes were required in the sections describing the characteristics of government and the two ways of presenting social security.

8. Pension funds for government employees are classified as pension funds even if the fund is invested entirely in government securities.

9. A clearer distinction should be drawn between pension funds and unfunded pension schemes. Only the former belong in the insurance corporations and pension funds subsector.

10. A section should be added to Chapter IV showing how a "public sector" can be defined as a complementary presentation.

11. In the present draft (by T.P. Hill), the discussion of institutional units and institutional sectors starts with households (including non-profit institutions serving households). It was agreed that institutional sectors should be discussed (and listed in classifications) in the same order as in the present SNA - i.e. "non-financial corporations", "financial corporations", "government" and "households".

12. The term "Households" will be used to refer to households (conventional and institutional) and their unincorporated enterprises together with non-profit institutions serving households.

13. At the first level, the two subsectors of the Household Sector will be "Households excluding non-profit institutions serving households" and "Non-profit institutions serving households".

14. A second level of subsectors will be distinguished for "Households excluding non-profit institutions serving households" as follows:

- Employers
- Own account workers
- Employees
- Recipients of property and transfer incomes

As previously decided households will be allocated to these four groups on the basis of the reference person who would normally provide the main source of income.

15. The distinction between "formal" and "informal" activities will be recommended although no international standard definition has yet been developed by the ILO.

16. There is a need for further clarification of borderline cases in respect to residence of enterprises and individuals.

Output of financial intermediaries (Chapter V)

17. The Group confirmed that income from investment of own funds is not taken into account in calculating the output of financial intermediaries.

18. The imputed service charges will be allocated to users according to the difference between the interest rate actually received or paid and a central "reference" rate.

19. The "reference" rate is, in principle, a relevant market rate.

20. The imputed service charge of financial intermediaries will be consolidated only within subsectors of the financial corporate sector defined at the most detailed level.

Overview of the System (Chapter II)

21. Participants agreed that this chapter provides a clear and concise introduction to the system. However, the group did suggest several modifications and pointed to several sections that required further elaboration. The group felt there was a need to elaborate the system in much greater detail in linking the accounts and tables with the overall system, and reiterated the need for a matrix presentation in addition to T-accounts somewhere in the book. As agreed in the SNA Structure Meeting, Chapter II provides an exposition of the conceptual framework, rather than a set of accounts for data compilation.

22. A smoother transition is needed between the general introduction and the detailed accounts. This could be achieved by explaining the rationale for grouping transactions into accounts and also by simplifying the sequence of the accounts.

23. The group agreed that attention should be drawn to different types of transactions - in cash, in kind, own-consumption, barter, etc. The classifications, especially of transactions, to be used in determining the contents of both detailed and integrated accounts need to be revised with a view to incorporating distinctions especially relevant for household accounts (the distinction between monetary and non-monetary transactions, identification of imputations and subsistence activity, etc.).

24. The chapter describes first the complete sequence of accounts for institutional sectors and subsequently the restricted sequence of accounts by industry and a supply and use table. This sequence does not imply that the latter have less priority.

25. Most of the Group confirmed that the production account should show value added as its balancing item followed by a generation of income account with operating surplus as balancing item.

26. The Group endorsed the introduction of "Primary Income" to cover operating surplus, net property income received, compensation of employees and net taxes on production and imports.

27. After gross value added in the production account all subsequent balancing items will be shown net of consumption of fixed capital.

28. That part of value added of the household sector that does not consist either of "pure" operating surplus or of compensation of employees will be referred to as "mixed income". Value added will therefore be classified into three categories (compensation of employees, operating surplus and mixed income) throughout the system.

29. The Group rejected the proposal to allocate part of this income from self-employment to compensation of employees.

30. The capital account should be rearranged to put all items on their conventional side. However the aggregate "changes in net worth due to saving and net capital transfers" should be retained which implies sub-dividing the account.

31. The Group strongly recommended that the presentation of the material formerly included in the reconciliation account and the balance sheets be recast to avoid the multiple reversal of signs implicit in the presentation suggested in the draft of chapter II.

32. The layout of the integrated accounts of the nation including columns for the goods and services account and accounting totals was endorsed, the title of the table needs to be changed.

33. A thorough review of technical terms to be used in the Blue book needs to be undertaken when the draft is complete.

34. The supply and use table presented in Chapter II should be simplified. The cif-fob adjustments to trade, the separate columns for imports and exports of goods and services and for market and non-market producers should be introduced in later chapters.

35. The consolidated accounts of the nation should show net national income as well as gross and should include an account for the rest of the world.

36. The derivation of a satellite account for natural resource accounting will be elaborated more fully in appropriate parts of the Blue Book including the overview chapter.

Production Accounts (Chapter V)

37. Rent will be inputed for all owner-occupied housing even if there is no market for such housing, because the construction of all houses is treated as fixed capital formation.

38. The Blue Book needs to explain explictly the appropriate treatment of output of domestic service.

39. The possibility of work in progress of service production will need further clarification.

40. The Blue Book should describe the treatment of all illegal transactions and not just illegal production.

41. There is an output from storage (for example of crops, but not exclusively) that must be separated from holding gains and losses.

42. The Group confirmed that production for own consumption is to be valued at basic and not producers prices.

43. The Group confirmed that intermediate consumption of own output, including the input of seed into agriculture in the same period and electricity consumed in the course of generation, are excluded from the measurement of output.

Capital Formation (Chapter VI)

44. In certain circumstances, it may be appropriate to treat small tools as capital formation.

45. The Group endorsed the proposal in the draft to treat as capital formation all military equipment of a kind which could be acquired by civilian users for purposes of production and which the military actually use in the same way.

46. Stocks of goods held for resale and all government stocks should be added to the list of components of stocks.

Income in kind

47. The Group was uneasy with the suggestion that interest foregone on loans provided to employees at less than market rates might be treated as income in kind. This will be discussed further in September.

48. Business travel expenses - hotels, transport and meals - will all be treated as intermediate consumption.

Consumption

49. A more even-handed treatment of the two alternative consumption concepts is required.

50. In the present draft, enlarged consumption is described as "actual" consumption; elsewhere "actual" is used in contrast to "imputed". A new term is therefore required.

Statistical Units

The note attached on statistical units also forms part of this report.

STATISTICAL UNITS

1. The SNA Coordinating Group attached high importance to the full consistency between SNA and ISIC in respect of statistical units, and welcomed the opportunity to discuss the problem with invited experts representing the views expressed in the ISIC draft and at the meeting on Business Registers in Aukland.

2. The "independence" (referred to by others as "autonomy of decision") of the units is an important characteristic and for many purposes may play a considerable role in statistics. There was general agreement that "autonomy" or "independence" may indirectly influence the delineation of establishments. It may also have an effect on the details of the national activity classification. This should be explained both in SNA and ISIC.

3. However, this group considered that the "independence" ("autonomy of decision") should not become a formal criterion in the definition of the establishment, partly because it is very difficult to define, and so it is not an operational criterion. Particular difficulties arise in using this criterion for centrally planned economies.

4. Production homogeneity and locality should remain the main criteria of the definition of the establishment. It should be made clear that data availability is not a conceptual requirement although it is important in making the definition operational. However, this does not imply that separate establishments must be identified in every case where production accounts could be constructed.

5. Participants agreed that enterprises in which a complete production process is carried out within a given activity category and at one location should not be split in separate establishments even though sub-activities of that integrated activity are mentioned separately in the activity classification. Neither should establishments be separated if data availability goes beyond the most detailed categories of the activity classification in the given country.

6. The Group agreed that in both the SNA and the ISIC the operational definition of establishment should be discussed in addition to the ideal/theoretical concept of the establishment.

7. "Homogeneous unit of production" should be retained both in SNA and ISIC but should be referred to as analytical unit.

8. The Group agreed that different levels/variants of enterprise concept are useful for different analytical purposes:

families of enterprises
small (sub)groups of families of enterprises
enterprises (as institutional units)

9. Enterprises (as economic institutional units) are generally but not necessarily the smallest legal units. If ancillary activities are carried out by separate legal units and they serve one single enterprise (e.g., a bookkeeping "enterprise" exclusively serving an industrial enterprise) they should be merged with the unit they serve.

10. Small groups (or sub-groups) of enterprises are useful for some purposes or in some circumstances, e.g., when one legal unit supplies its output exclusively to another legal unit owned by the same single unit, or to a group of legal units owned by the same single unit.

11. Subsequently a sub-group of experts produced a working draft showing how these ideas could be elaborated and incorporated in the new SNA and ISIC introduction.

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 ?

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?

<u>Comprehensive Tables</u> (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?

<u>Broader view of the system</u> (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?

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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

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

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

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 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. <u>Cif./fob. treatment of imports</u>

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. <u>Subsectoring of households</u> (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 households 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" criter 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.

EXPERT GROUP MEETING SNA CO-ORDINATION
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Expert Group Meeting on
SNA Co-ordination
New York, 12-21 July 1989

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15.	ESA/STAT/AC.34/15	Statistical Units: Some Actual Issues (A.M. Bloem, Central Bureau of Statistics, Netherlands)
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17.	ESA/STAT/AC.34/17	Banking Services (B. Thage, Danmarks Statistik, Denmark)
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