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REPORT OF THE THIRD CO-ORDINATING
EXPERT GROUP MEETING

New York, 13-22 September 1989



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CONTENTS

| | Page No: |
|--|----------|
| Introduction | 2 |
| Chapter 8 - Taxes and Transfers | 3 |
| Transfers in kind | 3 |
| Recording of taxes - accruals | 4 |
| Other tax-related payments | 4 |
| Classification | 5 |
| Current and Capital Transfers | 6 |
| Valuation | 6 |
| Sub-sectoring of Households | 8 |
| Market and Non-Market Producers | 8 |
| Chapter 7 - Production Accounts for Industries and the I/O Table | 9 |
| Chapter 9 - Factor Incomes and Property Incomes | 9 |
| Low Interest Loans | 10 |
| The Recording of Interest Flows | 10 |
| Direct Investment and Foreign Control Enterprises | 11 |
| Intellectual Property | 12 |
| Chapter 10 - Capital and Financial Accounts | 12 |
| Chapter 11 - Balance Sheets and Net Worth | 14 |
| Chapter 13 - Adaptation of the Integrated Framework to Various Circumstances and Needs | 15 |
| Chapter 14 - Satellite Accounts | 16 |
| Natural Growth | 16 |
| Chapter 12 - Price and Volume Changes | 17 |
| Future Progress on the Revision | 18 |
| Summary and Conclusions | 19 |
| List of documents | 30 |
| List of participants | 32 |

Report of the third Co-ordinating Expert Group meeting

held in New York

13th - 22nd September, 1989

Introduction

The meeting was opened by Laszlo Drechsler, deputising for Mr. Seltzer, the head of the UNSO, who was out of town. There was no opening statement made for this meeting because it was in a real sense a continuation of the meeting in July and the points that had been made at the opening of that meeting still pertained to this one. Carol Carson and Pablo Mandler were appointed co-chairmen.

Carol Carson made an introductory statement reporting on the substance of the Inter-Secretariat Group meeting held the previous evening to discuss exactly what the objectives of this meeting should be, given the widespread concern that the time available was not adequate to deal with all of the issues raised in the material provided. The Inter-Secretariat Group had agreed that the draft of the revised SNA should go out on general circulation early in 1990. It will be clearly labelled 'work in progress' and will contain a statement showing that not all of the material included in the draft has been reviewed by the Expert Group. The draft will be accompanied by a document focusing attention on the major issues which need to be brought to the attention of the wider user community and on which feedback is desirable. Given the provisional nature of the draft the advice to the reader will be not to worry about whether the small points are consistent but to focus on issues such as whether the definition of capital formation is appropriate. The cover document will give the chance to a wider community to participate in the discussion of the big issues in the context of the overall revised SNA package. The second point that emerged at the Inter-Secretariat Group meeting was that the Statistical Commission cannot be expected to give its stamp of approval to the draft in 1991. Time would be set aside at the end of this meeting to discuss the timetable for wider discussion and the implications of moving towards a final draft.

With this background the role of this meeting was seen to have two parts. Firstly the main issues needed to be discussed and any additions needed to the text had to be identified. Participants needed to take responsibility to send comments on other issues directly to the authors but the mechanism for the transmission of comments was yet to be arranged. It was intended to proceed as far as possible chapter by chapter but some issues cut across several chapters. Comments that had already been received by UNSO were available to the group in background paper ESA/STAT/AC.35/22. Participants were urged to pass their comments to the UNSO who would add them to this document to be made generally available.

Several participants expressed their concern about the proposed schedule for circulating the draft. Their view was that it would be better to delay circulating the draft until it was not only complete but had incorporated a minimum number of revisions. It was suggested that it would be appropriate to make a list of the minimum number of changes that would need to be incorporated before it was appropriate to send out the draft; for example to ensure that there was consistent usage of terminology across all the chapters. It was felt that if a draft were sent out in an earlier state than this, those receiving it might feel that the new draft is less good and less helpful than the existing Blue Book entailing the risk that it will be rejected altogether. On the other hand it was recognised that there was something of a dilemma in the trade off between timeliness and quality. The closer the draft was to the final version

the more the consultation process looked like a hollow formality and this also would be undesirable. The consequence of sending a draft around early in an incomplete state would be that the possibility of a second round of discussions in the Regional Commissions needed to be investigated. This would be discussed further within the Inter-Secretariat Group and the meeting would be informed of the outcome later.

Chapter 8 - Taxes and Transfers

Transfers in kind

The first point for discussion concerned transfers in kind. As presently written the text describes transfers in kind as being recorded firstly as an imputed cash transaction and secondly as an imputed purchase of the products concerned. Several participants felt that this was not an appropriate representation. If transactions were recorded from an expenditure approach then all expenditure would be attributed to the sector bearing the expense and no transfers would be involved except where the rest of the world was involved. The second approach is the benefit approach where expenditure is attributed to the sector benefiting or consuming the products. A third alternative was that put forward in Chapter 2 which first of all adopted the expenditure approach in deriving an account relating to disposable income and consumption expenditure and then in another account developed enlarged income and expenditure measures. Under this approach it was necessary to distinguish between transfers in cash and transfers in kind because they enter different parts of the accounting structure. It was important to distinguish between the acquisition of goods and services and the means of financing this acquisition. Further, in order to preserve the income equals consumption plus capital formation identity, the money value of the transfer had to be recorded in order that the income and expenditure sides balanced. It was suggested that the problem was one of precision of terminology. Although this seemed to be pedantic, the appropriate explanation was fundamental to the rationale for explaining the SNA. In the first place there is an imputed transfer of economic rights or claims to particular goods which was equal in value to the goods. Secondly, there was the simultaneous acquisition of the goods in question. It was important not to use the word expenditure in this context or to lose the distinction between consumption and consumption expenditure. This marks a fundamental difference between a transaction in kind and a transfer in kind; since with remuneration in kind there is an imputed cash income and matching imputed cash expenditure and a similar approach is adopted for own account production. When the numeraire in the system is money, it is difficult conceptually to say that an imputed transfer value equal to 'x' is not an imputed transfer of cash so perhaps what is necessary is to describe not just the transfer of economic rights but a transfer of economic rights in money terms. The accounts must show the transfer of economic claims in one part and the later transfer of goods in the goods and services account.

As far as transfers in cash were concerned it was also felt inappropriate to describe this as a single unilateral transaction. The first transaction is a transfer between a donor and a recipient but it is then necessary to record the reduction in assets of the donor and the increase in assets of the recipient. Although the value as entered in the accounts is not altered, the manner of exposition of a seemingly simple action via a number of transactions to be recorded in the accounts is very important if the reader is to acquire a sound understanding of the system.

Recording of taxes - accruals

The discussion then turned to the appropriate treatment of accruals especially in connection with the payment of taxes. The text at present uses the expression 'due for payment' in connection with taxes but this may not be unambiguous; for example sales tax may not be due for payment to government until thirty days after the close of the month in which the transaction takes place. However, if the intention in the SNA is to ensure consistency between the paying and receiving sector, 'due for payment' needs to be interpreted differently from the legal obligation and this must be made explicit. It was also pointed out that the theoretical accrual base for taxes may differ from ultimate actual receipts because some taxes are not paid; for example if a firm goes bankrupt before meeting their tax obligations. It was argued that the conceptually correct basis for the SNA was that taxes should be recorded on a full accrual basis; that is when the liability arises. It should be recognised however, that in practice one may have to use either a cash receipts or due for payment basis. The question that arose then was where to put the difference between the theoretically correct and practically possible value, the answer presumably being somewhere in the financial accounts. It was pointed out that it was not always possible or even desirable to try to record some taxes on this full accrual basis; for example there was no liability to income tax on gross income because the liability was only calculated ex post. A further complication that arose was the question of whether a tax liability should be recorded in respect of transactions that are not themselves recorded; for example illegal activity. This gave rise to the possibility that there were three sorts of non-payment of taxes; (1) because the tax had been collected but not passed on to government, for example because the firm went bankrupt, (2) the tax was due but not collected by government because of the inefficiency of the tax collection system and (3) the tax was not even known to be due because it is related to an illegal activity. After some discussion it was agreed that the total tax received by government should be the amount recorded in the accounts and no allowance should be made for tax not collected for whatever reason. The tax collected should be allocated to the period in which the transaction which gave rise to the tax liability occurred.

At least one participant had serious reservations about recording tax on the basis of the amount paid to government. In the case of a badly administered system where the tax due was very much greater than the cash paid, this shortfall in government revenue would not show in the accounts. Not only was this an undesirable omission in itself, it could be taken as setting the precedent for similar treatment in other parts of the accounts, a process which the Group was not endorsing.

Other tax-related payments

There was also discussion about payments that included both taxes due and an element of interest. This is a particular problem in countries suffering high inflation. In principle the interest element is to be separated from taxes and shown as interest payments. A similar problem appeared to arise in the case of fines for late payment of taxes which then became due with the tax payment itself. In principle these should be separated and shown as a fine for late payment and not as a tax. However, extensive discussion within the OECD has shown that this is not workable in practice and therefore the convention that late payments would be treated as taxes should be continued.

Classification

Discussion then turned to the classification of taxes and transfers contained in paper ESA/STAT/AC.35/17 and a table given in paper /24. This table was nothing more than a schematic presentation of the types of taxes and transfers presented in Chapter 8 within the context of the classification hierarchy. There was discussion about how detailed the classification needed to be. If it was very detailed such as Chapter 8 and paper ESA/STAT/AC.35/24 seemed to imply, this would leave no flexibility for countries. There was a danger in rigidifying the system which may quickly become obsolete. A table such as the table in paper 24 was felt to be helpful but it should make clear in its style of presentation which parts of the table referred to the classification hierarchy and which were itemised taxes given as illustrative but not exhaustive examples. These details might, for example, be set in italics to make clear the distinction from the major headings.

There was then considerable discussion about the items in the classification hierarchy. There was general agreement that it would be helpful in this and other chapters if the text could follow the order of the transactions described in the order of the accounts with disaggregation where appropriate.

After discussion it was agreed that the first tax on products to be distinguished should be value added tax. It was agreed that other deductible taxes should be treated the same way as value added tax. ('Deductable taxes' in this concept related only to taxes on products and they were always to be deductible from the same tax).

Thereafter taxes on imports should be shown divided between import duties and other.

There was discussion about whether the term 'taxes on imports' should include anything other than import duties. It was agreed that what was required was total taxes on imports; that is the amount of tax that was levied on imports at first importation that brought trade figures c.i.f. to a level that matched the concept of producer prices. Obviously if a good was sold more than once any taxes levied at the second stage would not count as taxes on imports.

The next category would be other taxes on domestic products. Some clarification was sought on when profits generated by government enterprises were to be treated as taxes. It should be made clear that not all export or fiscal monopolies were to be so treated, only those where the government is the producer or distributor of particular goods such as matches, playing cards, alcohol and tobacco. Profits on public utilities, for example, would never be treated as taxes. It was noted that there may be difficulties of separating normal from excess profits and that strictly speaking these profits are not paid per unit of product. These difficulties should be spelt out but nevertheless such taxes should be treated as taxes on products.

The classification of subsidies on products should comprise import subsidies, export subsidies and other subsidies.

There was dissatisfaction with the term 'taxes paid out of income' since some may be paid from dissavings. They could not on the other hand be called taxes on income because they included also recurrent taxes on capital and taxes such as poll tax, business licences and stamp tax. It was suggested that an appropriate title might be 'other current taxes not linked to production' or 'income and other current taxes'.

It was eventually agreed that the heading should read 'Current taxes on income, wealth, etc.' and this would be sub-divided to first show taxes on income and profits and then another heading called 'other current taxes' which would cover capital taxes, poll tax etc.

It was decided by the group that all classification beyond the main categories should be in terms of the GFS-OECD tax classifications, by reference to the list of these tax classifications which would appear in the annex to the Blue Book on SNA-GFS relations. This was not to affect illustrative examples but the listing of categories.

A number of detailed drafting points were made by the IMF about the treatment of social security funds in paragraph 50, 55 and 56, for example. Provision should also be made for a separate listing of social security contributions so that voluntary and compulsory contributions can be distinguished. The classification hierarchy refers to social contributions by self and non-employed persons and it was suggested that this should be social security contributions. The response was that social security implied a scheme that applied to the whole population but there were other institutions with compulsory schemes which were not called social security schemes and therefore the term 'social contributions' has been used in order to cover both schemes. A number of detailed drafting points on these and other topics in the chapter were to be passed to Peter Hill by the IMF.

Current and Capital Transfers

Several participants noted that the distinction between current and capital transfers arose in several parts of the draft and these did not always seem to be consistent. Peter Hill responded by saying that his thinking on this subject had evolved as the draft had developed and his view now was that the section in paragraphs 125 and 126 of Chapter 9 on Incomes was the position that he recommended adopting throughout the text. This basically amounted to saying that a transfer should be treated as capital if it were linked to the acquisition or disposal of a capital asset; that is the purpose of the transfer and the source of funding had priority over the questions of the size and frequency of the payment although transfers to be treated as capital will tend to be large and infrequent. This position was adopted by the Group.

Earlier meetings had raised the possibility of allowing asymmetric treatment of transfers when donors and recipients viewed their current or capital nature differently. The Group agreed that asymmetrical treatment was not desirable and that transfers should be treated consistently as current or capital in the accounts of the two sectors involved.

Valuation

Valuation bases to be used in deriving measures of value added are described at the end of Chapter 5 on Production Accounts. This item had not been discussed in July along with the rest of the chapter simply for lack of time.

The text asserts that value added should be determined by subtracting intermediate inputs from output when both these concepts are measured at the same prices so that value added at basic prices, for example, is defined as output at basic prices less intermediate inputs at basic prices and value added at purchasers' or market prices is derived as output at purchasers' prices less

intermediate inputs at purchasers' prices. The practice of deriving value added as output at basic prices less intermediate input at purchasers' prices is described as being at mixed prices and the text asserts this valuation is conceptually wrong.

The Group accepted the position on purchasers' prices and noted that in many instances this was the valuation that would be used for practical reasons of data compilation or otherwise. However, in many contexts and particularly for input/output tables and supply and disposition tables the use of purchasers' prices was not appropriate because of the distortions that could be introduced by the uneven application of prices.

The concept of basic prices had originally been introduced into the SNA in order to give homogeneous valuation to products in the context of an input/output table. Within an input/output table each of the intermediate inputs could be valued at basic prices. However, the column totals of intermediate inputs into any one industry are not valued at basic prices because of the inclusion of the entries representing distribution margins on these products. The entry representing the taxes on products paid on the intermediate inputs was also added to the column sum of intermediate inputs bringing the total to a valuation at the cost to the producer (i.e. purchasers' prices). This then left a concept of value added where the only taxes included were other taxes linked to production. The discussion about whether intermediate inputs should be valued at purchaser or basic prices revolved around the appropriate treatment of the entries for taxes on products paid on the intermediate inputs. The view of most of the Group was that these taxes were included in the cost of products delivered to the producer and therefore should be shown as part of the total intermediate cost. The view put forward by Peter Hill was that the taxes to be paid on intermediate inputs were a charge against the value added of the producing firm and therefore should be included in value added. This would mean, for example, that if a producer used as input a quantity of petroleum on which a high excise duty has been levied the payment of this petroleum excise would be shown routed not through the accounts of the industry supplying the petroleum but through the accounts of the industry using the petroleum. It was argued by most participants that the present practice of treating such taxes as part of intermediate costs should be preserved. Recording intermediate inputs at purchaser prices was consistent with the way in which such payments were actually recorded in the firm's accounts and typically submitted to Statistical Offices. Further, it allowed the possibility that the production accounts could be compiled where the commodity detail of the accounts were also valued at purchaser prices rather than disaggregated into basic prices plus margins and taxes.

After extensive discussion the Group agreed that when value added was derived from output at basic prices it should be by deducting intermediate inputs at purchasers' prices. The only taxes, therefore, that would be included in this measure of value added would be other taxes linked to production. This was to be described as the preferred way of deriving value added. If in a particular country it was not possible to use basic prices then output should be measured at producer prices and intermediate inputs for deduction should be valued at the cost to the producer (i.e. purchasers' prices). The resulting measures of value added would include excise duties, for instance, levied on products. This meant that the share of value added within a particular industry would be influenced by the relative size of excise duties. In such analyses the petroleum industry usually showed the highest share of value added, a fact which distorted the usefulness of such figures for the economic analyst.

Most participants felt that the discussion on valuation would be improved by introducing the complexities raised by VAT earlier in the text and defining purchasers' prices as including all taxes on products except deductible VAT and similar taxes. Market prices would then also be defined as purchasers' prices excluding deductible VAT-type taxes.

Sub-sectoring of Households

This was another item left over from the July meeting. It was agreed that the sub-sector 'recipients of property and transfer income' should be sub-divided into recipients of (i) property income; (ii) pensions; and (iii) other transfers. Pensions would include all forms of pensions and not just retirement pensions. Returns from equity in life insurance refunds would not be regarded as pensions but as property income. Social security benefits other than pensions are to be treated as other transfers.

No decision was made as to how skill levels could be incorporated into a further sub-sectoring of households. The cover note to the draft Blue Book should make it clear that this and other issues dependent on co-ordination with the ILO and UNESCO have yet to be resolved.

Market and Non-Market Producers

This too was a topic for discussion left over from the July meeting and despite further extensive discussion no final resolution on the matter was reached at this meeting either.

The criterion in the draft for defining a market producer is that 50% or more of the cost of its output should be covered by receipts from sales. This criterion is not in the current Blue Book. It is suggested that it should not be interpreted in an overly rigid manner; for example a producer may have losses that exceed 50% of his costs for some years but still be considered a market producer because on average, in the longer run, more than half his costs are met by sales. The problem arises concerning a producer who receives extensive receipts from government other than from sales over a long period of time. If he were to be treated as a non-market producer he could not then be classified to the corporate sector since by convention only market producers are classified as corporations. One solution would be to leave the producer in the corporate sector and treat the payments from government as a subsidy. This depresses the value of GDP at market prices and causes problems in international comparisons particularly in respect of the ICP and the SNA/MPS comparisons.

The sub-group that had been considering the definition of market and non-market production had suggested that a third approach was possible. This was that for specific commodities made available to specific groups of consumers at rates below cost, the payments from government should be regarded as the purchase of goods and services by government which would appear in the individual consumption of government. On the whole this proposal received the least enthusiasm from the group because of the difficulty of specifying the products to be considered and the identification of the recipient groups. This then left the first two alternatives; either to treat the producer as a non-market producer and therefore not in the corporate sector or to be in receipt of subsidies and thus depress the value of GDP. Because the Group could reach no resolution on which of these alternatives to adopt a further sub group is to work on producing a draft outlining the various possibilities and their consequences for early circulation and discussion.

Chapter 7 - Production Accounts for Industries and the I/O Table

Discussion of this chapter was rather limited. There was general agreement that the present text was incomplete because there were no tables available to the author at the time of writing. In this chapter, in particular, the text should draw extensively on illustrative tables. When these are available the chapter will be redrafted.

A number of other general points were made. At present the text makes extensive use of terminology relating to purchases and sales rather than the more conventional discussion in terms of intermediate consumption and output. It was agreed that the terminology of the existing Blue Book should be used instead of purchases and sales. The discussion in the text on the need to adjust recorded purchases for stock changes in order to derive true figures for intermediate consumption and output will be significantly reduced. The whole question of the adjustment to import figures reconciling commodity detail

available on a c.i.f. basis with the totals required on a f.o.b. basis should be included in this chapter. There should also be a description of the commodity flow technique of balancing supply and demand by concentrating attention on the information available in the input/output table across the rows as well as production account information available by reading the columns.

Chapter 9 - Factor Incomes and Property Incomes

Some concern was expressed about the exposition of the income items generated in the production account (compensation of employees and operating surplus) and their apparent relationship to factors of production. It was pointed out that compensation of employees does not measure the return to all labour but only to employed labour. Operating surplus is described in the text as 'accruing to the owners' of the enterprise but this is something of a simplification because property income describes the distribution of income (and not its redistribution). It could be argued that property income flows also represents factor income and that attempts to match factor income with factors of production would need to take this into account. Because income from land is treated in the national accounts as property income, the income items generated by production accounts do not relate to all the factors of production as commonly interpreted by economists. It was felt that it would be unhelpful to redefine factors of production in a way that could be interpreted in a national accounts sense but one in which it would be impossible to tie the income flows to the economists' concepts of factors of production. One consequence is that the term factor income could usefully be dropped and replaced in the title of the chapter and elsewhere simply as income.

The chapter should discuss how the sequence of accounts first shows the generation of income where net operating surplus appears not as a measurable flow or transaction but as a balancing item in the account and subsequent accounts show the distribution of all income to institutional sectors and subsequent redistribution.

It was noted that this chapter had been drafted before the decision was taken in July to introduce a third income item, 'mixed income'. This item represents the operating surplus of unincorporated enterprises much of which represents the implicit payment for own labour. The text throughout this chapter, and in particular paragraphs 48 to 52, needs to be revised to take this change into account.

The text needs to include a discussion of the fact that by convention the net operating surplus for non-market producers is always zero so that the net operating surplus for the whole economy is the sum of the net operating surpluses of all market producers. Further, it should explain the gross operating surplus for non-market producers is not necessarily zero. It was suggested that Chapter 5 on the production accounts is the appropriate place in which to have a full description of the accounting conventions to be adopted for non-market producers.

Low Interest Loans

There was discussion about whether the provision of low interest (or interest free) loans by employers should be regarded as a form of income in kind. While there was undoubtedly a financial benefit to the employees receiving such loans, this benefit could not be treated in quite the same way as other income in kind payments which matched consumption on the same item. It was also noted that the ramifications of imputing the payment of full interest charges would further complicate the allocation of the imputed service charge for financial intermediation; for example if the interest was treated as being at the full rate the service charge would be correspondingly higher and the difference between this and the actual interest payment may be negative. It would be difficult to know how to interpret this analytically. Further it was noted that if low interest loans to employees were to be converted to transactions at full interest rate by means of imputation then such a procedure should also be adopted when, for example, government makes loans at reduced rates of interest to public corporations and when loans are made to Third World countries at preferential interest rates. Because of these complexities it was thought that in general it would not be necessary to make imputations in respect of low interest loans. However it was noted that there were conditions where these could be significant (particularly in circumstances of high inflation or high interest rates) and in these situations it might be appropriate to make these imputations. It should be noted that in these circumstances there are many other factors affecting both real and nominal interest rates.

Paragraph 38 introduces the concept of national and domestic compensation of employees. Although these concepts could be derived it was doubted whether this terminology was necessary especially in comparison with the earlier decision not to introduce similar terminology in respect of household consumption.

The Recording of Interest Flows

In Chapter 9 paragraph 70 it is necessary to explain how payments to and from financial intermediaries should be treated by separating these into interest payments and payments for service charges. This chapter must explain how the service charges are treated as a payment for services whereas the interest payments are treated as property income.

In paragraph 65 it is important to make a distinction between the kinds of payments made to government to exploit, for example, mineral deposits. If the payment is made because the government owns these deposits, the royalty payment is treated as property income. If the payment is made because government simply licences the exploitation then this 'royalty' payment should be treated as a business licence, that is as a tax.

In the part of the chapter discussing the treatment of bonds (and in particular paragraphs 91 and 92 on deep discounted bonds), it was felt appropriate that greater distinction should be made between the correct theoretical treatment of these bonds and the practical steps that may be taken to record interest payments.

In paragraph 59 item 6 retained earnings may be attributable to foreign direct investors and not necessarily to enterprises.

A query was raised as to whether the statements in paragraph 94 on index linked bonds were consistent with the conclusions of the Expert Group on Financial Flows at page 44.

There was discussion about the appropriate time of recording of interest payments and it was agreed that this should be on a full accrual basis.

In paragraph 62 there was a reference to the payment of rents by a tenant to a landlord being met out of net operating surplus. This should be changed to read 'to be met out of net income'.

It was felt that the section on the concept of income in the system beginning at paragraph 120 could usefully come earlier in this chapter. Further it was felt that there was a need to have a discussion of primary income, discretionary income etc linked to the articulation of the full set of accounts of the system.

In paragraph 96 changes need to be made in respect of statements on insurance reserves. A question was raised about whether in paragraph 98 (i) it is appropriate to describe this flow as a capital transfer rather than an anticipated repayment of funds. Are the returns from equity in life insurance funds to be treated as interest or dividends? The classification hierarchy only has imputed property income to policy holders.

Some concern was expressed about the references in paragraph 46 to real interest. It was felt that this was not appropriate in this chapter. Further, it was remarked that the counterpart to nominal holdings of gains and losses may relate to repayment of loans as well as to stocks.

Direct Investment and Foreign Control Enterprises

This item also had been left over from the July meeting. The problem arose because the text, at present, identifies two separate groups of enterprises; those that are deemed to be subject to foreign control (i.e. essentially branches and majority-owned subsidiaries of foreign corporations) and direct investment enterprises defined in accordance with the OECD benchmark definition of direct investment. The latter defines direct investment enterprises as those enterprises in which a single foreign investor or a group of associated investors have control of the shares or voting stock of a corporation for purposes of having an effective voice in its management. In this context, the threshold of 10% of equity holding is taken as presumptive evidence of foreign direct investment unless it is established that this did not confer an effective voice in the management of the enterprise. The Group did not find the OECD definition to be particularly helpful, especially when in certain circumstances an effective voice in the management could come about through an equity holding of less than 10%. In this regard, the Group noted that the OECD definition did not purport to suggest any precise degree of control, but merely referred to influence in the management of the enterprise. At the same time, the Group recognised that it was difficult to define the concept of control, other than effective authority over all management decisions.

Several participants felt that it would only be confusing to users and compilers of the accounts to continue with the two sets of enterprises especially since there would in most cases be a large overlap between the two concepts. Eventually, however, it was agreed that it was necessary to preserve both groups. However, in the chapters on Institutional Units and Sectoring it is necessary only to define foreign controlled enterprises so that financial and non-financial enterprises can be sub-sectored into publicly controlled, domestic private enterprises and foreign controlled enterprises. The concept of direct investment enterprises is necessary only in connection with the recording of transactions related to reinvested earnings and this concept, therefore, can be discussed in another chapter probably in that concerned with Incomes. At that point it would be made clear that all foreign controlled enterprises are direct investment enterprises but it is also possible that some domestic private and some publicly controlled enterprises may also be direct investment enterprises.

Intellectual Property

A number of issues relating to intellectual property had been left over from the July meeting and a paper, ESA/STAT/AC.35/23, attempting to bring these together had been prepared by Carol Carson and Anne Harrison. The paper attempted to explore the consequences of changes in the definition of capital to include service output by looking at the consequences for the production boundary, property income and the recording of assets in the capital account and balance sheets. Several participants welcomed the attempt to explore the full consequences of the changes suggested by earlier Expert Groups on the extension of the definition of capital. Time did not permit a full discussion of the issues but it was hoped that a way would be found to continue work and discuss it before the draft of the Blue Book was ultimately finalised.

Chapter 10 - Capital and Financial Accounts

Several participants stressed that there is at present an important lack of communication between national accountants and people working in financial fields without involvement in national accounts. This is due to a basic lack of understanding by national accountants of financial data. This dichotomy must be overcome and the way this chapter is written will be crucial in contributing to this. Not only is there a need for the accounts to be incorporated in the chapter but somewhere elaboration of the accounting rule implications for the counterparts of financial and non-financial transactions is also essential. Further, the lack of familiarity with financial accounts by national accountants justifies a substantial introduction to the chapter covering the nature and uses of these accounts.

This chapter should give the definitions and appropriate classification of the instruments involved and a discussion of the account. It was also felt that it would be helpful to have an explicit definition of financial transactions included somewhere in this chapter. It was felt that the chapter as presently drafted was inadequate without a presentation of the accounts. This needed to be presented in two elements; the financial account and the sector - financial accounts in terms of the flow of funds elaborated within the system. Presenting the sector accounts alone was too abbreviated. It was therefore appropriate to use a three dimensional approach. Chapter 2 contains a condensed flow of funds matrix with creditor and debtor sector cross classified by instruments. This is appropriate in that chapter but there is also a need for a table like Table 24 in the present SNA, and paper ESA/STAT/AC.17/add 2 was circulated as an example of what might be an appropriate form of table. It was agreed that such tables were necessary and should be provided before the text can adequately describe

them. It was also suggested that the presentation of the financial account would be enhanced by adding memorandum items relating to international reserves and specific items which would be re-routed from the general government sector in order to derive accounts for monetary authorities. Copies of specimen tables along these lines were also circulated.

Much of the text of the chapter that relates to definitions and classifications of assets was proposed by the IMF and represents an extension of earlier definitions. The meeting recognised that a balance had to be drawn between trying to be sufficiently comprehensive in exposition that this chapter would provide the groundwork for allocating new assets as they were developed, and appearing to be too 'fashionable' by mentioning all of the most recent developments at great length. It was felt necessary to have definitions expressed in such a way that new instruments could be appropriately classified even if they were not mentioned by name.

With respect to the definition of financial instruments, the Expert Group on Financial Flows and Balances recommended that there must be an unconditional relationship on the part of both debtor and creditor for an actual financial instrument to exist. This was an attempt to distinguish actual financial assets from other assets (such as intangibles) as well as from contingent financial assets. It was recognised that this definition raised difficulties as certain assets of a financial nature, such as options, do not meet the test of unconditionality and previous Expert Groups had suggested options be treated as intangible assets. The preceding discussions of this meeting on property income had served to highlight possible disadvantages to this approach of treating 'intangibles' as a residual category. Several of the participants felt that options should be treated as a financial asset since these are so classified in some countries and they do not share the same characteristics with other intangible assets. It was also felt that greater clarification was needed in the chapter with respect to the nature of hedging instruments.

Some participants argued against treating contingent liabilities and commitments as integral to the account because of the asymmetry that would be introduced in increases in net wealth since assets and liabilities would no longer necessarily balance. This argument would suggest that options should not be treated as financial assets.

Although the meeting did not have time to consider the matter further, it was agreed that there was a need to examine whether a contingent financial liability is necessary related to an intangible asset.

The July meeting had suggested that it would be desirable to aggregate the seven instruments currently shown in the hierarchy classification so as not to appear to over balance the overall presentation of the accounts towards the capital accounts. However it was accepted by this meeting in discussion that it was not possible to condense these seven categories any further. It was suggested that it might be possible to split the single item of net lending or borrowing into net increase in liabilities and net acquisition of assets.

Chapter 11 - Balance Sheets and Net Worth

Several participants felt that this chapter did not adequately cover a number of those issues relevant to balance sheets, some of which were presently discussed in M60. A list of particular omissions can be found in the comments ESA/STAT/AC.35/22 'Comments from participants on the chapters of the revised SNA'.

It was felt there should be discussion on the valuation of land. Does, for example, a change in the use of land represent a change in value to be recorded in the accounts and what consequences would this have for constant price measurement?

Some participants felt that the discussion on holding gains and losses was rather difficult to follow by someone who is not already well versed in the problem. The introduction of the term 'neutral' holding gains and losses was queried. The need for it was recognised but the terminology should be examined again later.

A number of questions were raised about the valuation problems in respect of capital assets occurring in the balance sheet. Mention should be made of adjustments necessary if the life length assumptions were corrected during the life of an asset, for example.

It was felt there was some inconsistency between Chapters 10 and 11 on intangibles. Chapter 10 implies that intangibles are linked to rights, but Chapter 11 (paragraph 22 on) includes items such as research and development as intangibles. At present M60 indicates that patents should only be included in the balance sheets when transacted but in this text they are built into research and are always included. The breakdown by sector or industry assumes that these offset patents exactly. Paragraph 27 is not wholly consistent with the Expert Group recommendation that said that exploration costs should be treated like research and development. The 'knowledge' about subsoil deposits is not such that double counting with proven reserves is an issue. In general there was still a long way to go to sort out the difference between assets and rights in the context of the balance sheets.

The classification of capital formation and of assets also raises problems. For example, land is treated in the balance sheet as a non-produced asset but some capital formation and improvements in land will be recorded as production but then included in the value of land (non-produced) in the balance sheets. This appears to be a case where capital expenditure does not give rise to an asset explicitly in the balance sheets. The question was raised about whether this approach could be extended to deal with non-financial assets.

The discussion then reverted to a reconsideration of the desirability of including research and development as capital expenditure in the accounts. Several participants felt that the full consequences of such a change had not been worked through and were uneasy with the decisions that had been taken by earlier Expert Groups. Again it was agreed that some means needs to be found of addressing these issues in a wider context before the Blue Book is finalised.

Chapter 13 - Adaptation of the Integrated Framework to Various Circumstances and Needs

This chapter was introduced briefly by its author Andre Vanoli who pointed out that it was intended eventually to include some illustrative tables to give concrete examples of how the central framework can be used in a flexible way. This chapter was welcomed by the participants but some concern was expressed that it was not quite clear what areas were covered in this chapter and what in the chapter on Satellite Accounts. Was it the question that one dealt with the disaggregation of transactors and one dealt with the disaggregation of transactions, for example? It was suggested that adaptation should apply to cases where the definitions of the central framework was adhered to but further disaggregation and alternative presentations may be used whereas changes to the basic system, for example by extending the production boundary, should be dealt with in the satellite accounts.

One very 'positive' response to this chapter was the encouragement that it would give to readers to view the system as being essentially flexible and capable of portraying areas of special interest to individual countries. This should help to avoid the slavish adherence to the SNA which has sometimes inhibited useful development of national accounts in some countries. At the same time it was not helpful to give the idea that this was allowing countries to develop their 'own' SNA and some reformulation of part of the text to make this clearer would be desirable. It was agreed that the word 'Application' should replace 'Adaptation' in the title to the chapter.

Several participants felt that the description of the derivation of public sector figures should be enlarged somewhat. Others expressed the view that this area was sufficiently important that it might be more appropriate to ultimately include that part of the text in another chapter since to place it in the chapter on adaptation made it appear that this analysis was an 'optional extra' whereas for purposes of international comparability, countries should be encouraged to develop public sector figures as a matter of course.

Participants mentioned many other areas that they felt could usefully be mentioned in this chapter or in the one on satellite accounts. These topics covered changes in the production boundary to identify specifically the role of women in the economy, environmental statistics, social protection and agriculture accounts. It would also be appropriate to consider presenting the accounts so that formal and informal activities were distinguished and whether the mode of technology was traditional or modern. The concept of key sectors could be extended so that, for example, consideration of the role of petroleum could also take in the role of petro-chemical processing; cotton growing could include the activities of spinning, weaving of textiles and garment manufacture.

Many participants felt that it was important to make clear in this chapter that the articulation of many of these concerns within the overall framework of the SNA was what was frequently described as a social accounting matrix and it would be important to make clear in this chapter that a SAM is nothing more than a flexible interpretation of the existing system and not an alternative approach.

There was some discussion about how much discussion was appropriate on quarterly accounts and regional accounts. These are recognised as being areas which deserve priority in the programme to implement the SNA in a number of countries. However, after discussion it was felt that many of the problems associated with them are essentially practical in nature and detailed exposition of how to compile these accounts is probably more appropriate for handbooks than for the Blue Book itself, though the desirability of compiling these accounts should be clear in this text.

It was suggested that some more attention could be given to the use of alternative presentations of the accounts not just from the point of view of economic analysis but also to investigate the nature of the data system involved. For example, by separating those parts of the accounts that are well based from those that are more tenuous estimates it is possible to examine the interaction of errors in the system and to investigate the trade off between timeliness and accuracy.

In the course of discussion a general point was brought up about references to be made in the Blue Book to other work, since examples of adaptation are a particular case where literature on various applications exist. It was pointed out that in the past the Blue Book has not contained references to other works. It has been felt that this is not the place to pay tribute to pioneers and to list some works selectively could be regarded as being invidious. On the other hand several participants felt that a comprehensive bibliography of relevant works would be an extremely useful document for users and compilers of national accounts to have access to. The practice of IARIW of presenting comprehensive bibliographies was referred to and it was suggested that the possibility of resurrecting this idea and preparing such a bibliography on national accounts topics should be investigated.

Chapter 14 - Satellite Accounts

Questions were raised about the use of the expression 'satellite account'. This seems to imply a system that is rather smaller than the national accounts although in general what has been discussed is an expansion of the basic system. This point was generally accepted but it was pointed out that over a long period of time no better expression has been found and since satellite accounting has come to be used in general currency perhaps this expression should be retained.

Many participants felt that this chapter could lay more emphasis on the fact that linking the national accounts to specialised systems allowed for a much broader approach including, for example, measures in units other than money and allowed for the development of what were initially experimental approaches. A number of instances were cited where it was felt that it would be helpful to have more detailed examples given. This is especially so for the environment but might also include the implications for extending the production boundary to include housework, for example, and a more comprehensive R and D account.

In the course of discussion reference was made again to the intention that had been expressed by a number of Expert Group meetings, especially that on the household sector, to identify as far as possible imputations and reroutings in the system. Wherever possible this should be part of the basic system but in some cases it may be necessary to introduce this degree of disaggregation in supplementary analyses.

Natural Growth

The appropriate treatment of natural growth was another issue that had been left over from earlier meetings. In the present Blue Book growth in livestock is regarded as production in the year in which it occurs and may be recorded as change in stocks or capital formation as appropriate if the animals are still alive at the end of the period. On the other hand growing crops and forests are not regarded as productive until they are harvested. This was felt to be an anomalous situation and it was suggested that the same convention should apply to both types of natural growth. Several objections were raised to the possibility of treating growth of crops as output. One problem is how to value such output. Elsewhere the text suggests this might be done on the basis of

cost incurred plus the value of labour involved. However in many cases, including developed countries, much agricultural output is grown by farmers who are self-employed and there are therefore no explicit labour costs. There is also the question about whether growth in cultivated forests should be treated differently from growth in natural forests. It was pointed out again that there was a need to re-examine the whole question of assets, the definition of what constitutes an asset, its classification and the valuation to be attributed to it as well as the link to production. Pending such an investigation, however, it was agreed that in future natural growth of crops and forests should be treated in the same way as growth in livestock, fish etc; that is it would count as production when it was cultivated by human activity and accounted for as it occurs giving rise to changes in stocks and capital formation as appropriate.

Chapter 12 - Price and Volume Changes

Some participants felt that a number of important areas had not been given adequate attention so far in the draft of this chapter. These included the calculation of the imputed service charge for financial intermediation at constant prices; the deflation of wholesale and retail distribution margins and the treatment of unique products. There was a question on how far the problems associated with the International Comparisons Project (ICP) and hyper-inflation should be covered in this chapter. It was recognised that if all these topics were covered comprehensively the chapter would be extremely extensive and possibly over balance the whole book.

Several participants felt that the text as presently written implies that chain linking of indices is a second best option and to be avoided wherever possible. Given the fact that indices are now calculated over very long periods of time this presumption is questionable and almost every country uses some form of chaining, frequently at five yearly intervals. It was felt, therefore, that the text should reflect this practice, endorse it and discuss the question of how to deal with non-additivity of components to totals in years preceding the point at which chain linking occurs.

There was also discussion about how far double deflation should be advocated as the appropriate means of deriving measures of value added in real terms. While there was general agreement that double deflation was theoretically appropriate several participants felt that the practical problems were such that anomalous results were frequently encountered and on this account it might be appropriate to make clear in the text that on occasions single deflation could be used. An alternative view point that should be given attention in the text is that where the results are anomalous, this may be the result of combining volumes as measured with prices from another period that were wholly inappropriate to these volumes. In such cases the conclusion drawn from the anomalous results was not to revert to using single deflation but to change the base period used in the calculations. The Group felt that double deflation should be endorsed as the correct method but that an examination of the problems arising and their possible causes should also be included.

Greater care should be taken with the words 'real' and 'volume' in this chapter to make clear that it is possible to develop measures of some concepts in real terms, for example disposable income, even though it is not possible to decompose the current price measure into price and volume terms.

The Group welcomed the instruction in the text that the terms of trade effect and real national income terms dependent on it should be calculated. It was also recognised and agreed that this advice should be given even though it was not possible to specify a single method of deflation to achieve this.

Future Progress on the Revision

The Group was informed of the conclusions of the Inter-Secretariat Working Group meeting held on Wednesday, 20th September to consider the next steps to be taken in preparing the new Blue Book. These conclusions ran as follows:-

'The draft of the revised SNA will be submitted to the Statistical Commission in 1991 for comments and not for adoption. It is planned that the 1993 session of the Statistical Commission will consider the draft for adoption.

'Regional Commission meetings will be held as planned in 1990. However, the Regional Commissions will be given the option to organise a second round of regional meetings between the end of 1991 and mid 1992.

'For the first round of regional meetings in 1990 a discussion document will be prepared by UNSO in close co-operation with the Inter-secretariat Working Group highlighting the main features of the accounting structure of the system, describing changes proposed as compared to the 1968 SNA and unresolved issues and presenting the main tables. This document will be distributed worldwide and will serve as the main document for the discussion in the 1990 round of regional meetings. The draft of the revised SNA covering as many chapters, tables and annexes as then available will also be disseminated as a background document in the regional meetings in 1990. Other documentation will also be provided to the Regional Commissions as background documentation including the conclusions of the July and September Expert meetings. All documents will be distributed towards the end of January 1990. The covering letter and the discussion document will contain a clear statement concerning the fact that the draft will not be before the Commission for Adoption before 1993 and would indicate the chapters reviewed and revised, reviewed and not yet revised, and chapters not reviewed at all.

'After distribution of the chapters in January 1990 work will continue on further elaboration and improvement of the draft chapters approximately until July 1990. The draft thus elaborated and improved will be submitted to the Statistical Commission in 1991 for initial comments together with the reports of the 1990 round of discussions in regional meetings and the report of the SNA/MPS Links Expert Group meeting.

'Prior to the meeting of the 1991 Statistical Commission an Expert Group meeting on SNA co-ordination will be held to review and comment on the July 1990 draft. It is planned to hold this meeting sometime in September or October 1990. Another Expert Group meeting is planned in 1991 after the Statistical Commission session. This meeting will assist in the process of further revising and refining the draft; no decision was taken on the exact date of this meeting'.

The meeting ended with a discussion of these proposals for which Mr. Seltzer was present. Considerable concern was expressed about the state of the draft to be circulated in January. At present there are several chapters and annexes not yet written including the introductory chapter and the chapter specifying the accounting rules of the system both of which were felt to be very important. Further a number of significant revisions to the draft of existing chapters had been proposed both at the July meeting and at this one. It was clear that not all these changes could be incorporated into the draft as well as the draft being completed by January. It was recognised that it was desirable to expose the draft to a much wider circulation for comment as soon as possible but the experts still expressed concern that they would wish to have the chance to see and comment on the new sections and substantial revisions at the earliest possible opportunity.

Concern was also expressed that the draft to be ready by July 1990 which would serve as the background document for the Statistical Commission meeting in 1991 would not be the same document that the Regional Commissions had discussed. Further, it was hoped that the July 1990 draft would incorporate a resolution of the outstanding issues but it was not clear to the experts how such resolution would be achieved. The possibility of setting up small working groups was mentioned but the mechanism for proceeding along these lines and communicating the results to the whole of the Co-ordinating Group was not settled.

Several participants felt that if a single meeting of the Co-ordinating Group was to be held in 1990 it would be better to have this earlier in the year where there was a possibility of resolving some of the outstanding issues rather than having it in September/October. Several participants expressed the view that no useful purpose would be served by having a meeting at this time. It was too late to affect the draft going to the Statistical Commission and too early to take account of comments made by Regional Commissions and the Statistical Commission itself. In reply Mr. Seltzer suggested the date of this meeting was not final and could be altered if the balance of opinion favoured this. He stressed that while the question of resolving the outstanding issues was of major importance to the experts the cover document that would go out with the draft in January would concentrate on a number of areas of which this would only be the last. One section of the paper would concern the overall shape of the SNA; another the difference from the 1968 SNA; a third information on the accounts and tables to be presented. Only the last section would deal with the outstanding issues. This discussion paper needs to be drafted and translated into at least French and Spanish in time to be distributed by the end of January. It is simply logistically impossible therefore to have a major discussion with members of the Expert Group even by correspondence within this time scale. Nor was it felt that this is necessarily the occasion to reopen the issues that have already been dealt within the Expert Groups.

The timetable for the Expert Groups as far as is known as present is that in March there will be a meeting of ESCWA; in May of ESCAP for the Asia region and of ECA for the English speaking African countries; in July an ESCAP meeting for Pacific countries; in September ECA for Franco phone Africa. The dates for the ECLAC and ECE meetings were still uncertain.

July 1990 was the date when documents to go before the Statistical Commission had to be completed and sent for translation. This would be the first time at which the draft of the new Blue Book would be translated into French, Spanish and the other UN languages. It was usual practice for this text not to be released to anyone until all the language versions were available and it was not possible to say in advance what the time scale on this would be nor when one language would be completed relative to another. This factor meant, however, that there would be very little time available to the experts between the text becoming available and a meeting scheduled for September/October.

The meeting concluded by taking note of these issues and the invitation to write to the authors with detailed comments on any part of the text and to the United Nations Statistical Office offering comments and suggestions for how progress towards a final satisfactory version of the Blue Book could best be achieved.

SUMMARY AND CONCLUSIONS

OBJECTIVES OF THE MEETING

1.

The draft text will be distributed in early 1990. Because of shortage of time the coordinating group focussed its discussion on a selection of the main points in the chapters on the agenda.

CHAPTER 8 - TAXES AND OTHER TRANSFERS

Transfers in kind

2. The SNA must explain how transfers in kind from government and PNPIs to households intervene in the transition from consumption expenditure to actual consumption and between the associated income measures. The treatment of these transfers differs from that of compensation of employees in kind and of own-account production for consumption which are treated as disposable income and consumption expenditure of the receiving sector.

Recording of taxes

3. The taxes to be recorded in the System are those that are actually collected by government, and not those assessed by government or declared by taxpayers. Assessments and declarations do not constitute a sufficiently firm basis for recording them as financial assets and liabilities pending the ultimate payment of taxes. The System does not therefore require the imputation of taxes which are evaded.

4. The group provisionally agreed to distinguish between (i) full accrual basis, (ii) due for payment basis and (iii) cash basis. These concepts need to be clarified and may need to be modified since they need to be applicable to transactions other than taxes .

5. The System should allocate tax collections to the period in which transactions occurred in the case of taxes on transactions in goods, services, financial assets or intangible assets, and to the period when they are due in the case of taxes on income or capital. This latter rule still needs to be spelled out for particular types of taxes. Estimates based on intermediate stages in the tax collection process should be allocated to the appropriate time period in a similar way.

6. Interest charged on taxes paid late should in principle be treated as interest, but in practice this interest will in general be treated as a tax.

7. The implicit taxes (or subsidies) deriving from multiple exchange rate regimes should be shown separately from taxes or subsidies.

8. To permit the passage to the GFS/OECD Revenue Statistics total of taxes and compulsory social security contributions, as called for by the Public Sector Accounts Meeting, an additional category for voluntary social security contributions will be necessary.

Classification

9. Most of the group found a table showing illustrative entries under each heading in the classification hierarchy for taxes and transfers to be helpful. Such tables would be useful in other chapters also.

10. The order of the text should in general follow the order of the entries in the classification hierarchy.

11. Other deductible taxes on products will be treated the same way in the system as VAT.

12. The classification of taxes on products will be changed to comprise the following:

VAT-type taxes

Taxes on imports excluding VAT-type taxes

Import duties

Taxes on imports excluding VAT-type taxes and duties

Export taxes

Taxes on products except VAT-type, import and export taxes

The classification of subsidies on products will be changed to comprise the following:

Import subsidies

Export subsidies

Other subsidies

13. The heading of current taxes on income and wealth will be retitled current taxes on income, wealth, etc. and will be disaggregated to show:

Taxes on income

Other current taxes.

Further details on these items are given in the tables showing taxes by type.

CHAPTER 7 - PRODUCTION ACCOUNTS FOR INDUSTRIES AND THE INPUT-OUTPUT TABLES

Valuation

14. In the institutional sector accounts and the central supply and use tables that are integrated with them, output can be valued at either basic or producers' prices. All transactions on the uses of goods and services are valued at market prices (purchasers' prices), market prices being defined as including all taxes on products except the deductible part of value added type taxes.

15. When output is valued at basic prices, value added excludes taxes on products net of subsidies; these taxes must then be added to the sum of value added of all producers in order to derive GDP at market prices. When output is valued at producers' prices, value added includes net taxes on products other than VAT type taxes; in this case, taxes on imports and non-deductible VAT-type taxes, if any, have to be added to the sum of value added of all producers in order to arrive at GDP market prices.

16. Other methods of valuation may be used in other versions of the supply and use tables and symmetric input-output tables; in the latter case, valuation at basic prices is specially relevant.

CHAPTER 9: FACTOR INCOMES AND PROPERTY INCOMES

"Factor Incomes"

17. The System need not define factors of production and "factor incomes" will not appear in the classification. Instead, the sequence of accounts shows the full process whereby incomes are generated from production and then distributed and redistributed.

Operating Surplus

18. In discussing operating surplus, reference should be made to the convention whereby non-market producers have no net operating surplus.

Mixed Income

19. The balancing item in the generation of income account for the household sector will be subdivided between that generated by owner-occupied dwellings and that from other unincorporated enterprises, the latter being referred to as "mixed income".

Low Interest Loans to Employees

20. Some employees receive financial benefits from their employers such as low interest loans, and insurance coverage at favorable premiums. Although in a certain sense these might be regarded as a wage element, in general no imputations are to be made, but in circumstances of high inflation or high real interest rates their value may be imputed at the cost to employers and included in compensation of employees.

Current and capital transfers

21. The distinction between current and capital transfers will be that now presented in paragraphs 125-126 of the draft chapter "Factor incomes and property incomes". Symmetric treatment in the accounts of the payer and the recipient will be retained.

Interest

22. Interest payments to and from financial intermediaries must be adjusted to take account of the imputed service charge which is allocated to users.

23. Interest will be recorded on a full accrual basis.

CHAPTERS 10 AND 11: THE CAPITAL AND FINANCIAL ACCOUNTS
AND BALANCE SHEETS

24. The Blue Book needs to specify the definition of financial asset/liability, the definition of financial transaction and the moment of recording transactions.

25. Chapter expanded discussion of the role of financial accounts in the SNA. In the chapter (as in other appropriate chapters) there will be included a description of sectoral accounts. There will also be an explanation of a detailed a three-dimensional flow of funds table (creditor sector, debtor sector, instrument) along the lines of Table 24 of the 1968 SNA.

26. The chapter on balance sheets needs extending to include specification of the coverage of balance sheets and the asset classification.

27. A number of questions were raised about the implications for the balance sheets, of treating R&D, computer software, mineral exploration and certain types of intellectual activity as capital formation. In this context most of the group expressed serious reservations about their earlier decision to treat some or all of these items as capital formation.

28. The group accepted that it was not possible to collapse the classification of financial assets from seven headings even for the purposes of Chapter 2.

CHAPTERS 13 and 14: ADAPTATION OF THE INTEGRATED

FRAMEWORK TO VARIOUS CIRCUMSTANCES AND NEEDS

AND SATELLITE ACCOUNTS

29. The Group strongly endorsed the emphasis on flexibility in applying the System introduced by these chapters. The scope for flexibility should also be emphasized at an early point in the Blue Book.

30. Chapter 13 should be retitled "Application of the integrated framework to various circumstances and needs".

31. Chapter 13 will make it clear that Social Accounting Matrices (SAMs) are a flexible application of the System.

32. The group recommended that the problem associated with the compilation of quarterly and regional accounts are more appropriate to a handbook than to the Blue Book.

33. Satellite accounts are particularly suitable for developing new concepts and systems. Environmental accounting is an important example and should be given prominence in the Blue Book.

34. The Group reaffirmed the intention to identify as far as possible, imputations and reroutings in the System as agreed at the Expert Group Meeting on the Household Sector.

CHAPTER 12: PRICE AND VOLUME CHANGES

35. While this chapter should not attempt to cover all the practical problems appropriate to a Handbook, it should recommend the treatment of certain important areas such as the imputed service charge for financial intermediation, insurance service charges, trade and transport margins and R&D and will acknowledge the special problems associated with compiling accounts in periods of hyper inflation.

36. It was confirmed that double deflation is the conceptually correct method of deriving value added at constant prices.

37. Many participants felt that chaining should receive more favorable treatment in the text.

38. The group endorsed the calculation of gains and losses from changes in the terms of trade even though no single deflator can be universally recommended.

Sub-sectoring Households

39. Households which are classed as recipients of property and transfer income will be sub-sectored into recipients of (i) property income, (ii) pensions, and (iii) other transfers, according to the main source of income of the reference person. No restriction on the type of pension applies to sub-sector (ii).

40. The document describing the status of the draft Blue Book will draw together references to areas where co-ordination of definitions and classifications with ILO and UNESCO concepts is required. This includes, inter-alia, the disaggregation of employed households by skill level.

Direct Investment

41. The sub-sector foreign-controlled corporations may not have exactly the same coverage as corporations in which a non-resident has a direct investment.

42. Foreign-controlled corporations are defined using parallel criteria to those used in the System to define public corporations. Direct investment will be defined in accordance with the OECD Benchmark Definition. Hence, direct investment flows may also be recorded in respect of public and national private corporations.

43. The discussion of foreign-controlled corporations will be contained in the chapter on sectoring; discussion of direct investment flows will be given elsewhere.

Market/Non-market

44. The group could not reach agreement on the criteria for distinguishing between market and non-market producers. Messrs. Kumar, Levin and Drechsler will prepare papers to summarize the full implications throughout the System of alternative criteria for early circulation and resolution.

Natural Growth

45. Natural growth of livestock, crops, forests, fish, etc. is to be counted as production when cultivated by human activity and accounted for as it occurs.

Revision to Summary Conclusions of July Meeting

46. The following revision to para. 27 of Summary Conclusions of the July meeting was agreed. After gross value added in the production account, all subsequent balancing items will give more prominence to the net concepts, the gross concepts and consumption of fixed capital being also shown in order to facilitate the integrated presentation of the accounts and the inclusion of GNI in the latter.

Expert Group Meeting on SNA Co-ordination
(New York, 13-22 September 1989)

Ref. No.

- 1001 Draft Schedule for Discussions (Inter-Secretariat Working Group) (ESA/STAT/AC.35/3)
- 1002 Agenda (Inter-Secretariat Working Group (ESA/STAT/AC.35/4)
- 1003 Outline of the Revised SNA, Rev. 1 (ESA/STAT/AC.35/5)
- 1004 Table of Content of the Revised SNA, Rev. 1 (ESA/STAT/AC.35/6)
- 1005 Chapter VII Revised SNA: Production Accounts for Industries and the Input-Output Tables (Peter Hill - Consultant) (ESA/STAT/AC.35/7)
- 1006 Chapter VIII Revised SNA: Taxes and Other Transfers (Peter Hill - Consultant) (ESA/STAT/AC.35/8)
- 1007 Chapter IX Revised SNA: Factor Incomes and Property Incomes (Peter Hill - Consultant) (ESA/STAT/AC.35/9)
- 1008 Chapter X Revised SNA: The Capital and Financial Accounts (Peter Hill - Consultant) (ESA/STAT/AC.35/10)
- 1009 Chapter XI Revised SNA: Balance Sheets and Net Worth (Peter Hill - Consultant) (ESA/STAT/AC.35/11)
- 1010 Chapter XII Revised SNA: Price and Volume Changes (ESA/STAT/AC.35/12)
- 1011 Chapter XIII Revised SNA: Adaptation of the Integrated Framework to Various Circumstances and Needs (André Vanoli - Consultant) (ESA/STAT/AC.35/13)
- 1012 Chapter XIV Revised SNA: Satellite Accounts (André Vanoli - Consultant) (ESA/STAT/AC.35/14)
- 1013 Annex 5 Revised SNA: Changes in Stocks and Holdings (Peter Hill - Consultant) (ESA/STAT/AC.35/15)
- 1014 Annex 6 Revised SNA: The Leasing of Equipment and the Renting of Buildings (Peter Hill - Consultant) (ESA/STAT/AC.35/16)

- 1015 Classifications, Accounts and Tables of the Revised SNA,
Rev. 1) (ESA/STAT/AC.35/17),
Taxes and Other Transfers (ESA/STAT/AC.35/17, Add.1)
Table on Financial Transactions of the Detailed Sub-Sectors
(Kevin O'Connor, International Monetary Fund)
(ESA/STAT/AC.35/17, Add.2)
- 1016 Recommendations made by sub-groups on: Market and non-market
producers; Direct Investment Corporations; Household
sub-sectoring (ESA/STAT/AC.35/18)
Recommendations concerning the distinction between market and
non-market in the SNA (Heinrich Lutz, Statistisches Bundesamt,
Fed. Republic of Germany) (ESA/STAT/AC.35/18, Add.1)
- 1017 Income from Production versus Property Income: Some issues
related to "Intellectual Property" (Ms. Carol S. Carson,
Department of Commerce, USA) (ESA/STAT/AC.35/19)
- 1018 Environmental Accounting and the SNA (Jan Van Tongeren, United
Nations Statistical Office) (ESA/STAT/AC.35/20)
- 1019 "Economist" article on environmental accounting (World Bank)
(ESA/STAT/AC.35/21)
- 1020 Comments from participants on chapters of revised SNA
(ESA/STAT/AC.35/22):
(Brian Newson, EUROSTAT) (ESA/STAT/AC.35/22, Rev.1);
(J. Levin, International Monetary Fund and H. Lutz, Statistisches
Bundesamt, Fed. Rep. of Germany)
(ESA/STAT/AC.35/22, Rev.2);
(Uma Datta Roy Choudhury - Expert) (ESA/STAT/AC.35/22, Rev.3)
(Laszlo Drechsler, United Nations Statistical Office)
(ESA/STAT/AC.35/22, Rev.4)
- 1021 Service Output as Capital: A Review of the Issues (Ms. Carol
Carson, Department of Commerce, USA and Anne Harrison -
Consultant) (ESA/STAT/AC.35/23)
- 1022 Classification of Taxes and Transfers (Anne Harrison -
Consultant) (ESA/STAT/AC.35/24)
- 1023 Imputations and Reroutings in the Accounts for Institutional
Sectors (A. Bloem, Central Bureau of Statistics, Netherlands)
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- 1024 Summary and Conclusions (ESA/STAT/AC.35/26, Final)

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