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MAJOR CHANGES PROPOSED FOR THE NEXT SNA: AN OVERVIEW

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The first draft of the new manual for the System of National Accounts will be circulated during 1990. The major changes to be incorporated in it are highlighted in this article. A full list of all changes is available from the United Nations Statistical Office and will be included as an annex to the final manual.

INTRODUCTION

After many years of discussion, the first draft of the revised System of National Accounts, the new Blue Book, will be circulated in early 1990. This is an appropriate time therefore to prepare a document setting out the main changes proposed to inform the community outside the expert groups and indeed outside national statistical offices, of these changes and to seek comment and opinion on them.

The process of reviewing the SNA has been extensively documented. Up to 20 background papers have been prepared for each expert group meeting. At each meeting there was agreement upon a set of summary conclusions; these now number 500 and occupy 100 pages of typescript. After each meeting a long report was prepared, typically of about 50 pages. In the present paper we aim to present in a succinct but self-contained manner the major points arising from these meetings.

The fact that a single alternative is described does not imply that every expert endorsed that point of view or that others were not discussed. Readers interested in the background discussion and the process of reaching a decision should refer to the long reports of the meetings which are available from the UNSO. Nevertheless, it was seen as important that the expert groups made clear recommendations and these have been endorsed by the groups, based on majority votes where necessary. This document therefore represents the decisions made by the groups to be incorporated in the draft of the new Blue Book.

The process of discussion and decision-making is, however, not yet over. Between June 1986 and January 1989 a series of eight expert group meetings were held. At each meeting, decisions were taken in respect of various subject-specific areas, but inevitably because of the changing membership of the groups and because of the complexity of inter-relationships within the SNA, there are some instances where inconsistencies have slipped in or the full implications of a particular decision have not been explored and endorsed. These problems have

Note: Like most of the long reports of the expert group meetings, this paper has been prepared by Anne Harrison. The views expressed, if not the phraseology, are those of the expert group.

been revealed in the preparation of the draft and two further expert group meetings were held, one in July and one in September 1989 with the intention of resolving these issues. While some progress was made, some important and difficult problems remain. In sections 1 to 8 that follow both the proposed changes agreed upon by the expert groups and the unresolved issues are described. The process for seeking concensus on all aspects of the draft from a much wider audience is outlined in section 9.

1. General Perspectives

One area where there is universal agreement that the present SNA needs revision is in the area of its *documentation.* The present manual (the Blue Book) is said to suffer from a number of deficiencies, the greatest of which is that its manner of exposition makes it inaccessible to many users especially those new to the System of National Accounts. The mandate of the Statistical Commission to clarify and simplify the system is taken to apply as much to the documentation as to the review of the theoretical structure itself. To achieve this end a number of basic decisions have been taken about the format of the new Blue Book.

Firstly it is recognised that the complete documentation of the system of national accounts cannot be contained in a single manual. There will be a central manual which will continue to be referred to as the Blue Book which will contain the detailed theoretical structure underpinning the whole system. This will be supported by a number of handbooks which explain in detail how to implement the system in various areas. The system of handbooks can also be regarded as incorporating the handbooks for the certain related systems of statistics such as those prepared by the International Monetary Fund. An important distinction is to be drawn between the theoretically correct approach to drawing up economic accounts and limitations that may be imposed due to practical constraints whether these are due to difficulties of measurement or resource limitations. The task of the Blue Book is to define the system in principle; the function of the handbooks is to explain how, in practice, these may be elaborated. They will also give advice on setting priorities, develop additional tables for specialised fields, include alternative concepts and show operational links between the SNA and other systems.

It will be recognised that not all countries can implement all parts of the system and that *priorities* will have to be determined about the relative importance of different sectors of the accounts. However it is not appropriate that a single set of priorities be determined for all countries. Each country should determine its own priorities according to local circumstance. Arising out of this it has also been agreed that it is not appropriate to think of a subset of the system as being appropriate for developing countries; not least because there is as much difference among developing countries as there is between developing and developed countries. There will be a single system that applies in principle to all countries; each country will make its own determination about how far to implement the system.

Key concepts in the system will be *defined by rationale* and not by enumeration though lists of the type of items concerned may be given to support the rationalisation. In this way implementors should have guidance about how to treat items not mentioned explicitly in the manuals and less variation in the treatment of new items should emerge.

Wherever possible, *transactions* should be recorded in as *unconsolidated* a form as possible since it is always possible to consolidate to a more aggregate level if this is desired, whereas it is impossible for the user to disaggregate and reconsolidate the information as it is presented to him.

The new Blue Book will define explicitly the *concept of transaction.* A distinction will be made between transactions that take place in money terms where the appropriate value can be recorded explicitly and three other types of transactions. The first of these occurs where an actual activity takes place but the valuation to be placed on it must be imputed, for example the production for own consumption of agricultural products. The second relates to a transaction between two parties but where the value must be imputed, for example barter transactions. The third distinction should be made in respect of transactions which do not actually take place, but are recorded in the system as if they do. An example of such a hypothetical transaction is the re-routeing of social security contributions through the household sector. Imputed and hypothetical transactions should be identified in the system wherever possible and in any case where these are large and significant. As a result analysts interested in identifying only the monetary transactions in the economy should be able to do so. However, a deliberate "core" set of accounts restricted to monetary transactions will not formally be part of the system.

2. Accounts

Input/output tables are an integral part of the overall system of national accounts and an understanding of how to balance supply and demand cannot be achieved without introducing the concepts of make and absorption matrices. However, the present Blue Book is unbalanced by an excessive consideration of the algebraic properties of determining symmetric matrices and valuation problems of input/output tables. This algebra, along with the analytical purposes which symmetric tables serve, should be discussed at length in an input/output handbook rather than in the Blue Book, though the Blue Book will contain examples of symmetric tables without detailed explanation of their derivation.

In contrast to the present emphasis on the production process from a technological point of view, the new Blue Book will stress the role of employment and income distribution and redistribution in understanding how the ultimate beneficiaries of production, the population, are affected by changes in the level and type of production undertaken. This inter-relation will be shown explicitly in the framework of *social accounting matrices.*

The system will continue to be exemplified in terms of a matrix presentation similar to that in the present Table 2.1 but this will be supplemented by presentations using a *T* account format. Throughout the text both *matrix and T accounts* will be shown with illustrative numerical examples so that it is clear to the reader where entries should be expected and where cells are zero by definition. The exact layout of the international reporting forms and instructions on how these are to be completed will be treated as a supplementary document which may be changed without necessitating a change to either the Blue Book or related handbooks.

Both the *income and outlay account and capital finance account* as presently shown in the Blue Book will be *partitioned* in the new version. The first will be divided to show the generation of income, the primary and secondary distribution of income and the use of income. The second will separate the acquisition of non-financial assets in a capital account and show the acquisition of financial assets and incurrence of liabilities by instrument in a financial account. Further accounts will show other changes in assets (previously in the reconciliation account), revaluation items and changes in net worth linked to opening and closing balance sheets.

These latter accounts will full articulate the complete *integration* between the *balance sheets, reconciliation accounts* and *flow accounts* indicated in M60 so that schematically, at least, the difference between opening and closing stocks can be explained by changes in net worth where this latter is distinguished between transactions in non-financial assets, transactions in financial assets, nominal and holding gains.

The new system will emphasise the desirability of establishing *satellite accounts* consistent with the overall framework but where attention can be drawn to particular areas for disaggregation. One particular instance where this approach is thought to be particularly valuable is in the development of accounts relating to the environment.

Just as consistency between satellite accounts and the main system is held to be crucially important, so considerable attention has been focused on achieving *harmonization* between the central system and the various related systems that already exist. An expert group meeting has been held in respect of each of the three IMF systems on balance of payments, government finance statistics and money and banking statistics. Though each of these systems will contain further elaboration necessary for the particular analytical purposes that they serve, a bridge will be formed between the two systems at higher levels of aggregation based on identical concepts in both.

Harmonization is also desirable between the various sets of statistics compiled under the aegis of the United Nations Statistical Office. Such harmonization entails the use of common definitions between the SNA and ISIC on industrial institutional units, on sectoring of industry and households in ILO statistics and the SNA, on the use of identical concepts on industrial output in UNSO statistics and the SNA and on amending COFOG so that expenditure on education and health, for example, can be divided between collective and individual consumption in a way consistent with the new SNA proposals. At the time of writing these issues have been noted, but not resolved.

3. Economic Activities

3.1. *Production*

The *production boundary* in the new SNA will not be radically different from that in the existing system. However, it will be defined by rationale and will involve some minor changes. All goods and services which are actually marketed continue to form the vast majority of productive activity. In addition, all goods which are produced and could be exchanged on the market will be included within the production boundary. The restriction that goods must be made from only primary products, from primary products produced by oneself and that some at least of the goods must be marketed will be removed since the rationale for these restrictions is not clear. In practice it is unlikely that removing these restrictions will involve major change in the amount of activity covered. Household services continue to be excluded from the production boundary because they are not capable of being marketed once produced and the quantity produced is not related to market forces as directly as in the case of goods. The fact that an activity may be illegal is not a reason in principle for its exclusion from the production boundary. Nevertheless despite this preservation of the production boundary in more or less the same place as at present it is recognised that for other purposes and, in particular for the study of welfare, it will be appropriate for separate analyses to be undertaken with production boundaries defined much more widely. It is expected that such analyses would also be undertaken in the form of specialised satellite accounts which will be described in the handbook on the household sector.

3.2. *Consumption*

The distinction between consumption and consumption expenditure will be introduced in the new SNA and aggregates showing *individual consumption* and *collective consumption* will be introduced. This will be achieved basically by distinguishing those parts of public consumption and consumption of non-profit making institutions serving households directed to the individual and the community at large. In this way the transformation of the classification between private and public consumption to individual and collective should be transparent to the users and provide consistency with historical data series. This is a major presentational change in the new SNA which will greatly facilitate comparisons across country and over time which are presently obscured by institutional differences. Given the extent of discussion on this topic that has taken place including for example in the context of ICP, it is not elaborated further here.

3.3. *Accumulation—Changes in Definition*

The question of which commodities can and should be treated as capital assets within the system is one that has exercised many of the expert group meetings and has led to sustained and animated discussion. A number of proposals have been put forward which represent substantial changes in the definition of capital and in the measurement of GDP. Since these changes are so broad and so far reaching final confirmation is needed in this area and this is one of the major areas on which it is expected wider discussion will focus.

A characteristic of a capital, non-financial asset is that it contributes to the production process in a subsequent time period typically by improving labour productivity. At present the assets that are regarded as fulfilling these characteristics are construction goods, plant and machinery equipment and vehicles. The questions discussed by the expert groups fell into two groups. The first was whether some of these types of good which are presently treated as current expenditure should in future be treated as capital and secondly whether other types of expenditure, particularly on services, should also be regarded as capital expenditure because their impact on production in subsequent periods is exactly parallel to the effect of those goods already treated as capital.

The item first considered was *expenditure* on goods by the *military.* The rationale for the decision in the present SNA that almost all expenditure by the armed forces should be regarded as current expenditure regardless of type is not clear. It seems illogical, for example, that two identical computers may be bought by government and fulfil identical functions but that if one is used by a Ministry of Defence it is treated as current expenditure while the other used in civilian administration should be treated as capital expenditure. Several participants in the expert group favoured the inclusion of all durables as capital formation but the present proposal is not as extreme as this. Rather, it is suggested that arms, weapon system and the method of delivering these should continue to be treated as current expenditure, but that all other expenditure on the type of goods treated elsewhere as capital should also be capitalised when these are purchased for the armed forces. This would include, for example, vehicles for transporting personnel, schools, hospitals and airfields. Under the new proposals these would be treated as capital whether they involved any civilian use or not.

An area on the borderline of goods and services production is the case of *mineral exploration and development.* At present in the SNA exploration costs are treated as current costs and development is capitalised. This produces a seemingly anomalous result in years preceeding production when large negative value added results. This problem is avoided if all exploration and development expenditure is treated as capital formation. There is some difference in company accounting practices, but if they include these in their accounts as capital then these find their way into the national accounts as capital formation. If mineral exploration is carried out in a country and no mineral deposits are located it is not clear what the resulting asset is. In general, however, the success rate of exploration might be considered to be parallel to a rate of return on capital and will presumably influence the total level of exploration activity. Further if all expenditure on exploration is capitalised the rate of amortisation will be much higher than if only successful exploration is capitalised. A combination of these considerations led to the recommendation that all mineral exploration and development should hence forward be recorded as capital formation in the SNA.

Though mineral exploration does not constitute research as defined in the Frascati manual, it was clear that there was a parallel for national accounts purposes between the treatment of mineral exploration and *research and development* expenditure where the convention of treating it all as current consumption is difficult to defend.

There was widespread feeling among the experts that "at least some" R&D expenditure should be capitalised. More detailed consideration of the topic led to the position that it was very difficult to draw a dividing line so that some R&D should be treated as capital and some not. The conclusion of the experts therefore is that all research and development expenditure should be treated as capital expenditure. In particular it was not felt appropriate to distinguish between R&D

in natural sciences and social sciences including the one and excluding the other. This would apply to R&D carried out both by private enterprise and by public administration. In the case of the latter this is simply a case of reclassification in terms of final expenditure between consumption and investment. In the case of the former it would change the size of gross domestic product by changing some expenditure from intermediate to final. It is assumed that the data that has been collected for some years past by OECD under the guidelines of the Frascati manual would be indicative of the data to be used, although closer examination suggests that some changes in these definitions would be necessary if the data were to conform to SNA requirements exactly.

Another area in which it was agreed that a review should occur for the treatment of capital was the development of *computer software and databases.* At present when software is bought in association with a major hardware purchase the total value is treated as capital formation, but software purchased or developed independently is not. It was felt that the criteria of contributing to production in subsequent periods is clearly met both by purchased software and by large in-house software development, including the acquisition and development of databases, and that it would be appropriate to treat these as capital formation in future in the SNA. There is a distinction to be made between major development and minor ad hoc work, but this distinction parallels closely the distinction between repairs and maintenance and capital formation in the case of construction expenditure.

In the case of computer software and research and development *capitalisation of service output* is proposed. At present some service output, for example architects fees and the transfer costs of land and buildings, are included in the value of capital formation but explicit recognition that service output in one period can contribute to production in subsequent periods and should thus be recorded as capital formation is a major extension to the present concept of capital, and will have radical effects on the magnitude of value added in some industries.

However, discussion continued further to the treatment of *non-financial intangible assets.* These are items which appear on the balance sheet but are not the result of production in the economy and lead to property income rather than value added. The distinction between such assets and capitalised service output of R&D activity, for example, was not at all clear to the expert group meeting. Therefore a further investigation is under way to examine whether, for example, authoring a book should in future be treated as production and the result capitalised producing future income streams.

Despite these far reaching changes there were some areas in respect of capital that the expert groups felt should not be altered. In particular it was decided that it was inappropriate at this stage to introduce the concept of *human capital* into the system of national accounts, and that similarly *natural capital* in the form of environmental assets should also be excluded from the main system. It was felt entirely appropriate that a system of satellite accounts should attempt to measure both the stock and changes of natural assets in association with the flow accounts described in the SNA though the exact delineation of environmental and other assets is yet to be fully elaborated.

3.3. *Accumulation—Changes in Treatment*

Apart from the wide ranging discussion summarised above concerning the changes to definition of what constitutes a capital asset, there have also been a number of important changes suggested for treatments of assets already recognised in the system.

Financial leasing is a phenomenon that has come into considerable prominence since the existing SNA was published. Although in general there is a reluctance to extend the number of imputations in the accounts this is one area where it was felt that hypothetical transactions should be included. From an economic point of view a financial lease is in effect a financial instrument and it is thought more appropriate that where an asset is acquired in this way the SNA should impute transactions that would show the acquisition of the physical asset by the enterprise using it with a corresponding financial loan being incurred. In this way assets acquired under financial leasing will show as assets on the books of the using industries and not as assets of financial institutions. Interest on the lease will show as a current transaction and repayment of the loan as a capital transaction.

At present there is some ambiguity about how *assets* with a very *long production period* should be treated in the SNA. It is proposed that in future assets should only be recorded as fixed capital formation at the point they come into service and this in general will correspond with the change of ownership when delivery of the good takes place. Until this stage the production should be regarded as change in stocks, particularly work in progress. Any progress payments that are made from the final purchaser to the producer before completion should be treated as financial transactions. Clarification of this treatment means that there will no longer be a distinction between goods which are built to order and those that are built speculatively. Further, houses that are built speculatively and not sold immediately will remain in stock until sold. This treatment is felt, among other advantages, to lead to a better basis for calculating incremental capital output ratios since partially completed projects presently counted in fixed capital formation could not be expected to contribute to output in the immediately succeeding period.

One of the omissions in the present system of national accounts is that *capital stock* appears only in balance sheet accounts of institutional sectors recorded net of depreciation and at written-down replacement prices. The new system will recommend the compilation of capital stock information gross of the capital stock depreciation at constant prices and at current replacement costs and an analysis of the capital stock by both using and owning kind of activity units.

In many countries, particularly developing countries, *structures* are often erected as a result of *community effort*. Such activity should be recorded as production and as capital. If after completion the structure is to be maintained by government then the asset should be attributed to the public sector as owner after completion.

At present there is a recommendation in the SNA that *consumption of fixed capital* need not be calculated in respect of assets such as roads because it is assumed that the maintenance and repair performed on these assets is sufficient to ensure that these assets have effectively infinite service lives. It is felt that this approximation is inappropriate and that in future consumption of fixed capital should be estimated in respect of all assets, though obviously the higher the degree of repair and maintenance that is incurred on these assets the less will be the consumption of fixed capital. This is again a problem that has particularly beset developing countries in several of which assets have had an accelerated rate of depreciation because of lack of appropriate repairs and maintenance.

There is an anomaly in the present SNA on the treatment of *natural growth.* Increases in the value of livestock are regarded as capital formation, but increases in the value of standing crops are not. This position will be changed in the SNA so that natural growth of livestock, fish, crops and forests will all be counted as production when cultivated by human activities and accounted for as it occurs.

At present the system includes in *stocks held by government* only strategic goods. In future all goods held in stock by government should, theoretically, be recorded.

4. Income and Wealth

While GDP remains the major national account aggregate in the new Blue Book, the concept of GNP will be re-introduced. The concept actually relates to income rather than product and should more properly be called gross national income. Given the widespread use of the expression gross national product and its abbreviation GNP, it may be difficult to introduce this change of nomenclature.

The concept of (net) national income at constant prices will also be one of the main aggregates of the new SNA and will incorporate a term allowing for the terms of trade effect on income.

Just as new consumption aggregates have been suggested showing the total consumption of the population, it has been suggested that corresponding broadened *income measures* for households should also be introduced.

The operating surplus of unincorporated enterprises contains two elements, the return to labour of the owner who works in the enterprise and a return as entrepreneur. Although the two elements are not separable, it is only the second that is strictly parallel to the operating surplus of incorporated enterprises. To make the difference apparent a third category of value added will be introduced in the new SNA. It will be called *mixed income* and will comprise all the value added of unincorporated enterprises that cannot be unambiguously classified as compensation of employees or operating surplus. It will appear in the production account for the household sector and in the consolidated accounts for the nation.

The concept of *capital transfer* will be retained in the new SNA. Capital transfers in cash may be recognised by the fact that they are usually linked to, or even conditional upon, the acquisition or disposal of a tangible capital asset by one or both parties to the transaction, which also suggests that they are both large and infrequent, at least from the point of view of one of the parties. This definition is dependent on a concept of income which excludes capital transfers since a prudent, rational unit could not consider such receipts as available to be consumed in their entirety in the period in which they are received.

The importance of *holding gains and losses* in the measurement of production, consumption and income flows in the system needs to be clearly explained. These gains and losses will be very considerable in periods of rapid inflation but can be appreciable even in more stable periods. Holding gains and losses can be divided into two types with different implications for their possible treatment within the system. The first relates to holding gains and losses that result from overall movements in price related to particular goods. These result in holding gains and losses that at present appear only in the reconciliation account. It is not proposed that any change should be made to this form of recording. Holding gains and losses affect many of the data on stocks and flows throughout the system. As a particular problem, the Blue Book will draw extensive attention to the fact that when figures for output are derived from sales data by adjusting for changes in stocks, allowance should be made for the gains and losses that may be made on stocks. This is because the appropriate value for recording stocks in the system is at the value at the time the goods enter and leave stocks. Thus, even in periods of moderate inflation there may be considerable holding gains and losses incorporated in apparent changes in stock and for consistent measurement throughout the system this change should be removed from the measure of production.

The second type of holding gains and losses results from changes in the differential price level and relates typically to financial assets whose nominal values are fixed in money terms. It can be argued that since these price changes are predictable the holding gains and losses should be treated as current income. In periods of rapid inflation the effect of these holding gains and losses on income and wealth are very considerable. Interest flows recorded in nominal terms give a quite distorted view of redistribution of income within the economy. If this sort of holding gain was estimated it could be incorporated in the accounts as an imputed transfer between sectors which would allow the calculation of imputed real interest flows (in addition to nominal interest flows as presently recorded). Many of the experts expressed interest in such a proposal from an intellectuual point of view, but felt that it would not be practical to incorporate such recommendations in the Blue Book because of the far reaching effect such a change would have on the existing system. They recommend that this type of holding gain and loss also appear only in the reconciliation account, but separately identified.

One issue that is nowhere discussed explicitly in the existing SNA is the allowance that needs to be made in the accounts for *exchange rate differentials.* This is a particular problem for countries where multiple exchange rates (whether official or unofficial) exist and especially where balance of payments accounts are compiled in a currency other than the local currency, typically in U.S. dollars. In principle when a single exchange rate prevails, the difference between the buying and selling price of foreign currency should be treated as a bank service charge. If there are rapid changes in the rates these changes should appear as capital gains and losses attributed in the reconciliation account to either the central or commercial banks. Where there are multiple exchange rates but they are all official, it was agreed that a unitary exchange rate should be calculated as a weighted average using the actual transactions undertaken in each of the various rates as the appropriate weights. Once this has been done the difference between the unitary rate and the various individual rates represent implicit taxes and subsidies levied on the different types of transactions. In respect of imports and exports of goods and services the effect is equivalent to indirect taxes; for factor income it is equivalent to a tax on income and for capital transactions a capital tax. The taxes and subsidies will be recorded as global adjustments in the external account and will affect the values of GDP, national income, disposable income and savings as well as the trade and current surplus. All of these transactions appear in the flow accounts and no adjustments are needed in the reconciliation account. The problem that remains outstanding is what the appropriate treatment should be in the case where at least one of the rates involved is an unofficial "black market" rate because of the implausibility of attributing imputed taxes and subsidies in the case of illegal or unofficial activities and the inappropriateness of assuming that the effects of these transactions would show up in the net lending of the general government sector.

It was agreed that one consequence of the way the reconciliation accounts are integrated with the existing flow accounts would be the introduction of "*changes in net worth*" into the capital account. It is expected that this would distinguish changes due to the acquisition and disposal of non-financial capital goods, holding gains and losses (both those due to changes in relative prices and those arising from general price increases) and other revaluation changes.

5. Sectorization Issues

In the present SNA, different classification schemes are used for different accounts. Production accounts are derived by attributing establishments to categories of ISIC. By contrast institutional units are classified by sector to compile income and outlay and capital formation accounts. In the new SNA not only will the number of accounts be increased because of the sub-division of these two accounts, but in addition *production accounts* will be compiled along *institutional sector* lines. Production accounts will thus exist classified on the one hand by establishments and on the other for enterprises and households with a cross-classification of gross value added and its components by institutional sector and kind of activity.

The SNA and ISIC should *define establishment and enterprise* in exactly the same way leading to a consistent classification of industrial statistics. As far as possible family of enterprise should be avoided as a data collection unit. Where appropriate, information can be consolidated to this level of aggregation but it should not be used as the basic collection unit.

Holding companies should be classified to the institutional sector in which the activity of the group is concentrated. This conclusion is at variance with the revised ISIC which attributes them to business services.

Unincorporated enterprises will be treated as quasi corporate enterprises wherever and only if it is possible to identify a complete set of accounts for that enterprise including withdrawals of entrepreneurial income analogous to the payments of dividends in the case of a corporate enterprise. This treatment will apply to unincorporated enterprises within the household sector and government equally. Unincorporated enterprises that are not treated as quasi corporate enterprises will remain in their original institutional sectors. This means that in future the possible existence of unincorporated financial enterprises within the household sector is recognised.

It was felt inappropriate that *private non-profit institutions* should remain a sector given the same level of importance as general government and households. Those NPI's serving households will be included in the household sector at the first level of the hierarchy of classification in the new system. NPI's serving enterprises or government will continue to be attributed to those sectors. The new system, therefore, will have one fewer sector than the present, specifically non-financial corporate enterprises, financial corporate enterprises, general government, households (including non-profit institutions serving households) with the rest of the world playing a similar role to a fifth sector.

An important second level classification is that both non-financial corporate enterprises and financial corporate enterprises should be sub-divided to show those that are in the *public sector*, those which are in *national private ownership* and those that are *foreign controlled.* A public corporate enterprise is one in which the government owns the majority of the equity or one in which government exercises control over the enterprise's economic behaviour even if it holds 50 percent or less of the equity. Further, an enterprise will also be regarded as being in the public sector if the majority of its equity is held either by government or by other enterprises in which the government holds more than 50 percent of the equity. That is the concept of ownership will also be applied on a hierarchical basis.

A *direct investment enterprise* is defined in accordance with the OECD detailed benchmark on investment guidelines, where ownership of as little as 10 percent of the shares may be indicative of effective control. This gives rise to the possibility that a publicly controlled enterprise is also a direct investment enterprise, and thus foreign controlled enterprises cannot be equated with direct investment enterprises. Foreign controlled enterprises are also to be defined in terms of more than 50 percent of the equity being held by non-residents. Direct investment enterprises will therefore consist of all foreign controlled enterprises plus (possibly) some national private and some public enterprises where non-resident investment satisfies the OECD guidelines.

5.1. *Households*

Because unincorporated enterprises are inextricably combined with households as consumers, in the new SNA there will be an explicit *production account for the household sector* covering the activities of unincorporated enterprises and those associated with owner-occupied dwellings. Ownership of assets held for these productive activities will be shown in the balance sheet in addition to own dwellings.

Increased emphasis will be given to income distribution and redistribution in the new SNA articulating the link between income generation and household consumption. This implies increased emphasis should also be placed on *subsectoring of the household sector.* In particular the classification should be based on a reference person who should, in practice, be the main income earner for the household. Classification of households should then in the first instance be according to whether the reference person is (1) an employer in his capacity as the owner of an unincorporated enterprise; that is employs someone from outside the household, (2) an own account worker; that is runs an unincorporated enterprise without workers from outside the household, (3) is an employee or (4) is dependent on property or transfer income. In addition, given that non-private institutions serving households are to be included in the household sector, these would constitute a fifth sub-sector. Further disaggregation of households would be desirable but the criteria are likely to depend on local conditions. In particular it is felt that it would be helpful to distinguish between formal and informal sector activity. As far as non-profit institutions are concerned these should be disaggregated in a manner consistent with COFOG.

The present SNA contains two concepts of *household final consumption* which are often referred to as being calculated on a domestic and national basis. This terminology is both inaccurate and misleading. The concept that is required for the national accounts is consumption expenditure by resident households either in the domestic territory or abroad. Other components that are useful in deriving this, such as expenditure abroad by nationals and expenditure in the domestic territory by non-nationals, should not be used to derive other confusing concepts of household consumption expenditure.

5.2. *General Government*

General government will be *sub-sectored* in two ways of equal rank. In one central, state and local government should be separately distinguished each including social security funds. In the other social security funds should be separated from all other government activities. In practice it is hoped that wherever possible a cross-classification using these two alternative classifications on the alternate axes will be available.

The classification of *taxes* in the new SNA will be exactly as in government finance statistics with neither describing social security contributions as taxes. Inheritance taxes will continue to be classified in the SNA as taxes on capital, and will thus appear as capital transfers.

The term *general government* will continue to be restricted to resident units and supra-national authorities will be separately identified as a sub-sector of the rest of the world. (In practice the EC is the only such body in existence at present.) When it is desirable to aggregate supra-national authorities and national government, this should be done in a supplementary analysis. For international organisations in general, however, it was felt that it would be helpful to compile accounts embracing all their activities excluded as non-resident for all countries' national accounts as an additional unit to complete the universe of national accounts.

It was agreed that it would be helpful for the SNA to endorse the compilation of aggregates for the *non-financial public sector* and the *non-monetary public sector* by consolidating part or all of general government with non-financial public enterprises in a manner consistent with that undertaken in government finance statistics.

The existing SNA makes a distinction between central and local government. It was agreed that where appropriate an *intermediate level of government* representing regional or state government could be introduced.

5.3. *Financial Corporate Enterprises*

The present SNA limits *financial institutions* to those that incur financial liabilities and acquire financial assets on their own behalf. In the recent past there has been considerable growth in enterprises providing related services such as financial guarantors, brokers, mortgage and financial advisors. The new SNA will include all such services within an enlarged financial institution sector.

Some ambiguity is caused by the use of the word "*bank*" since this has a specific legal connotation in some countries that is different from the SNA interpretation. It is therefore proposed in the new SNA that the term depository institution will be used in place of bank and financial intermediation in place of the expression banking services.

In the time that has elapsed since the existing Blue Book was published there has been a move towards the use of a broad money concept rather than a narrow one and this influences some of the new proposals. However, because it is not felt possible to adopt a single definition of money that will hold for all countries over a protracted period of time into the future no single definition of money will appear in the new Blue Book, but where the distinction between broad and narrow money concepts is important countries will be encouraged to disaggregate depository institutions between deposit money institutions (basically narrow money institutions) and other (broader money). The *financial corporate enterprise sector* will be *sub-sectored* along the following lines:

(1) Central bank
(2) Other depository institutions
  (2.1) Deposit money institutions
  (2.2) Other
(3) Other financial intermediaries, except insurance companies and pension funds
(4) Financial auxillaries
(5) Insurance companies and pension funds.

The treatment of the *imputed service charge for financial intermediation* (previously bank output) will be changed to distinguish between those services provided to enterprises which constitute intermediate consumption and those that constitute final demand. In particular some of the demand for these services will appear as exports and in consequence for countries that pay considerable interest overseas, imports of these services will also be shown in future. Within the domestic economy the incidence of these service charges should be disaggregated not only by institutional sector but by kind of activity within the corporate enterprise sectors, both financial and non-financial. This is a radical change to the existing SNA and is in effect a reversal to the treatment that was in the previous SNA. The present treatment is felt to be particularly unsatisfactory for those countries which have large international payments and receipts of interest, but the exact methodology by which import charges for services of financial intermediaries will be calculated has yet to be agreed upon as indeed has the process of dividing the charges within the domestic economy. These proposals will change not just the sectoral allocation of interest flows but also the absolute levels of GDP.

The service charge for financial intermediation should in principle be allocated according to a "pure" interest rate. However, since there are circumstances and countries where such a rate cannot be determined, the term "reference rate" will be used with explanations about how this should be calculated. No allowance will be made for the risk element in lending to different customers, on the grounds that the risk is inherent in the activity of financial intermediation. Resolution has still to be found on how to determine the value of imported service charges for financial intermediation.

Another major change affects the treatment of *casualty insurance.* It is felt that treatment of this item should be more closely aligned with the existing treatment of life assurance and that in particular allowance be made for technical reserves and a recognition that investment income on these reserves is generated by insurance companies in respect of casualty insurance as well as life insurance.

Other adjustments to casualty insurance will be made to bring the SNA treatment into line with ESA. In particular the correct time of recording will be judged to be as premiums are earned and as accidents occur rather than when payment occurs. Further, in respect of third party insurance the transaction whereby the claims are paid first to the policy holders and secondly transferred to the injured parties will be changed to show the claims being paid directly to the ultimate beneficiaries. One item that remains outstanding is how claims on casualty insurance for capital losses should be treated since these appear to be current payments to the insurance companies, but capital receipts to the policy holders.

5.4. *External Sector*

In future balance of payments accounts will show a split between *factor and non-factor services* consistent with the distinction in the SNA between factor income and services.

The decision to retain *capital transfers* in the SNA means that capital transfers will need to be identified within the balance of payments account, but it remains to be determined exactly how these will show in the balance of payments account.

In general the rules of *residence* will not be altered from the existing guidelines, but students will be regarded as remaining residents of their country of origin. Technical assistance personnel under bilateral agreements will be regarded as being resident in the country where they are working and contributing to that country's output if they are resident for more than a year. This will make the treatment of such personnel consistent with personnel operating in the commercial sector and through the international agencies.

At present there is a difference between balance of payments and national accounts methodology in respect of *undistributed profits* of foreign controlled companies. In the balance of payments accounts such profits are treated as reinvested earnings and appear in addition to new direct investment transactions. This treatment will be adopted in the new SNA. Some concern has been expressed, however, as to whether it would then be appropriate to record similar hypothetical transactions in respect of domestic direct investment. So far the consequences of incorporating such transactions have yet to be worked through a whole set of accounts.

6. Constant Prices

The new Blue Book will recognise that in conditions of severe *hyper-inflation* many of the concepts underlying national accounts and their measurement at both constant and particularly current prices break down. The new Blue Book will draw attention to errors in recording and analysis that may be undetected if allowance is not made for differential price movements in respect of recording of stocks and in the valuation of both financial and non-financial assets. Such holding gains and losses will appear in the reconciliation accounts broken down between those that are attributable to differential price movements and those that are due to movement in the general level of prices. It is recognised, however, that this addresses only some of the problems of compiling national accounts in periods of hyper-inflation, and a comprehensive and systematic treatment of all the problems has not been developed.

It will be recognised in the new Blue Book that when time series at constant prices are being compiled for a very long period in practice some method of *chain linking* must be adopted.

When the *same good* is bought at *different prices* these will be regarded as different products when the consumer can choose the price he pays, for example, in making a choice between which of several outlets to purchase from. Where the consumer has no choice either because of rationing or because different prices are charged to different types of consumer as, for example, is frequently the case for utilities, then the product will be regarded as being the same and a change in demand from one class of consumer to another will in future be recorded as a change in volume.

The new Blue Book will recommend that *new products* be incorporated into the methodology for deriving constant price estimates as soon as these products appear on the market. Incorporating these explicitly is preferable to the default assumption of implicit deflation by other prices.

7. Valuation

The new Blue Book will define *basic prices* as including indirect taxes paid on production but excluding indirect taxes and subsidies levied on products. The distinction in the present Blue Book between true and approximate basic prices will be dropped. True prices is a hypothetical concept which can never in practice be recorded and this concept will not appear in the new Blue Book. What is presently referred to as approximate basic values are transaction prices and not approximations. They will in future be referred to simply as basic prices. Value added at basic prices will be derived by deducting intermediate inputs at purchasers' prices from output at basic prices.

8. Terminology

The present Blue Book distinguishes between *market and non-market activity* by making a distinction on the one hand between commodities and other goods and services and on the other between industries and producers of other goods and services. This terminology will be rationalised in the new Blue Book. The term products will be used to cover all commodities and other goods and services and the terms producers or industries to cover both industries and producers of other goods and services. Where the distinction between market and non-market activity is important, this will be made clear by using these terms to qualify products and industries.

The present distinction between commodity and other indirect taxes will be preserved, but they will be retermed taxes on products and other taxes on production.

Revised terminology in respect of banks and bank services has been described above.

9. Timetable Ahead

The two expert group meetings held in July and September 1989 were intended to review the draft of the new SNA and to resolve the outstanding issues.

As noted in section 1, the new Blue Book will be more extensive than the existing version since it will incorporate the material in M60 and throughout will give rationalizations for the accounting procedures, rather than simple statements of them. Although some parts of the draft are still to be completed, the material for the expert group to review comprised approximately 700 pages. It is perhaps not surprising, therefore, that sixteen working days did not allow a comprehensive review of all aspects of the text nor a resolution of all remaining problems. Nevertheless it is now felt to be an appropriate time to expose the draft to much wider discussion, and to seek comments on it. Though these comments can and should be comprehensive in their coverage, it is thought the following items may be particular areas for attention:

(1) the extension to the definition of capital;
(2) the changes in the treatment of bank output;
(3) the incorporation of income measures to match the new total consumption of the population estimates;
(4) the appropriate treatment of holding gains and losses;
(5) the appropriate treatment of implicit transactions arising from the existence of exchange rate differentials;
(6) the appropriate treatment of re-invested earnings on a domestic basis to match the agreed treatment on international payments.

The proposal now is to prepare a document spelling out the detail of all changes proposed and the underlying rationale as the basis of wider discussion. This document will be circulated in January 1990 with the then existing text of the Blue Book as an accompanying document. The fora for discussion will be a full series of UN regional commission meetings, each of which will prepare a report to go to the Statistical Commission meeting in early 1991. While these meetings are taking place, further drafting of the Blue Book will continue to incorporate changes in style and presentation suggested by the two expert group meetings held in mid-1989. In July 1990 the revised draft will be translated into the UN languages as preparation for the Statistical Commission who will decide at their 1991 meeting what further work is necessary before the draft is ready for adoption as the revised System of National Accounts.

REFERENCES

The full reports of all the expert group meetings held to date and of all the summary and conclusions agreed at the meetings are available from the United Nations Statistical Office, New York.