

**Fifth Meeting of the Advisory Expert Group on National Accounts
19-23 March 2007, New York**

**Substantive Comments on the Draft Chapters of the 1993 System of
National Accounts Revision 1**

Chapter 6: The production account

Response by the Editor

Response by the Editor on the proposed questions on chapter 6

Services

The first question concerns the changes I have made to the definition of services. It is true that what I have suggested may not seem to result immediately from the 44 issues but the considerations were instrumental in arriving at the proposals for a number of issues.

The task force on financial services found it very difficult to investigate in depth the adequacy of measuring the output of financial corporations on the basis of the fourth bullet point under the present definition of services. This reads

Changes in the general economic state of the institutional unit itself: the producer provides insurance, financial intermediation, protection, guarantees, etc

The task force concluded that to move forward they had to consider a service that consisted of unit A arranging for unit B to acquire a good, service or financial asset from unit C. Because such services are paid for an part of the price for the good, service or financial asset and we determine this by partitioning the transaction much as we do in the case of distribution services. The name “margin services” derives from this parallel. In his comments, Brent Moulton suggests that a term such as a facilitation service, an intermediation service or a distributive service would perhaps be better.

This suggests there could be two questions for the AEG:

Add.1 Do we wish to identify this sort of service explicitly rather than via the present fourth bullet of para 6.10?

Add.2 If so, what terminology is preferred to describe it?

The second question concerns knowledge.-capturing products. (There is a problem with terminology here too. I had started with knowledge embodying and in response to a remark changed it to knowledge-capturing but omitted at least one further case. Simply an oversight.) The question of services produced by goods industries and vice versa dives rise to a debate about the boundary between goods and services that is (in my opinion) neither resolvable not useful. The term knowledge-capturing products is intended to capture products of service industries without arguing about whether they are goods or services. It is another way of expressing the idea in para 6.13, but one that leads to an easier discussion of , for instance, originals and copies, without having to repeat much of the material in 6.13. In full, that para reads:

There is a group of industries generally classified as service industries that produce outputs that have many of the characteristics of goods, i.e., those industries concerned with the provision, storage, communication and dissemination of information, advice and entertainment in the broadest sense of those terms - the production of general or specialized information, news, consultancy reports, computer programs, movies, music, etc. The outputs of these industries, over which ownership rights may be established, are often

stored on physical objects - paper, tapes, disks, etc. - that can be traded like ordinary goods. Whether characterized as goods or services, these products possess the essential common characteristic that they can be produced by one unit and supplied to another, thus making possible division of labour and the emergence of markets.

This also leads to two questions:

Add.3 is the concept of knowledge-capturing services consistent with the 1993 SNA definition of services and is it helpful?

Add.4 If so, what terminology is preferred?

In response to one of Francois' questions, clearly home produced CDs containing music or photos purely for the pleasure of oneself, family or friends would not be included in the production boundary because they come within the general definition of services, However, a sentence to make this absolutely clear can be added.

Goods for processing

The AEG agreed that it would not impute a change of ownership when goods are sent abroad for processing. The work done on these goods would be measured as the difference between the goods after processing and before processing. The difference is often describes as "manufacturing services" or "industrial services" but it is clear that the work is [usually] done by goods producing industries. This treatment was to hold even in the case where the non-resident unit is not, strictly speaking, a separate legal entity but we treat it as such because it is non-resident. The AEG then went on to say that the same convention should be applied to goods processed within the domestic economy. This is in contradiction with para 6.152 which reads:

When goods or services produced within the same establishment are fed back as inputs into the production within the same establishment, they are not recorded as part of the intermediate consumption or the output of that establishment. On the other hand, deliveries of goods and services between different establishments belonging to the same enterprise are recorded as outputs by the producing establishments and must, therefore, be recorded as intermediate inputs by the receiving establishments.

But it is consistent with part of para 6.38.

When an enterprise contains more than one establishment, the output of the enterprise is the sum of the outputs of its component establishments.

Trying to find words to define output in such a way as to meet the quote which I took to be what the AEG wanted was not easy. What I suggest may be incorrect or incomplete. Or, it

may be that looking at the text, the AEG reverses its decision to use the same treatment on change of ownership for domestic as well as international processing.

Add.5 Does the AEG wish to measure processing undertaken domestically as simply the addition to value of the goods returned to the unit that delivered the goods?

Add 6 If so does the draft text achieve this?

Production for own use

The following is a quote from the document on refining the difference between market and non-market production. While there was not unanimous agreement with this, there was a clear majority and the proposal was therefore adopted. The text on own production attempts to reflect this decision.

The proposal above is to change the terminology “production for own final use” to “production on own account”. In a purist SNA, these terms should have the same content. A unit, even an establishment, should produce either to deliver to another unit, or for own final consumption or for own capital formation. Own capital formation includes goods going into inventories and some of these may be used later as intermediate consumption of the unit concerned. Further, the recommendation that an establishment should cover only one sort of production at one location is not always feasible. There may be occasions where there is significant secondary production in an establishment, some of which is used by the establishment and some of which is sold. Transport is a case in point where many production units have their own transport facilities, sometimes charging for delivery and sometimes including the charge in the prices of other products. In the latter case, all of the transport services provided are consumed internally. However, these sorts of activities are often of analytical interest, even without going so far as to construct a satellite account where they would indeed be treated as both output and intermediate consumption of the same establishment.

It is therefore suggested that “own-account production” could in practice include some production for own intermediate consumption, if there is good analytical reason to show such production as explicitly produced and consumed within the same unit.

The reference rate

Para 6.158 tries to justify in part the decision to show inter-bank positions instead of trying to allocate bank loans and deposits separately by showing that for the most part there will be little if any FISIM on bank lending and borrowing. It is not meant to state that (a) there should be only one reference rate and (b) this should be an inter-bank rate. I think it should be fairly easy to find a form of words that make it clear that these two conditions are not mandatory but still deals with the case of inter-bank lending.