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SNA update item #16: Government owned assets (valuation of non-market output). A comment on the February AEG-meeting 2006.

Summary

The AEG proposes a change of the convention in estimating the value of non-market output. But we can note some problematic consequences of the proposal.

- Difference between what can be observed (in the accounts of governments) and what is entered into the NA system.
- Change of perspective; from the statistically measurable economic outcome (ex post) to the theoretically expected outcome of economic agents (ex ante). This is done by introducing a fictitious transaction; “cost of capital”.
- Arbitrary measurement of the operating surplus both in respect of assets boundary and rate of return on these assets. This is due to a misconception of how governments finance their production.

Theory versus statistics

In the final decision made by the AEG on valuation of non-market output (#16 Government owned assets) there is still missing a discussion of the objective of SNA in relation to the problem of valuing non-market output. Economic theory in general is not identical with national accounts theory (including conventions) laid down in the 1993 SNA. Applying specific concepts from economic theory on NA might miss the objective of SNA and we think this is the case of solely interpreting *exchange values* in the SNA as the outcome of profit maximising firms. But it should be obvious that non-profit organisations do not have the same pricing strategy as a profit maximizer. So, what’s the reason for assuming that?

There is also a further problem of too much economic theory in the estimation of NA. Economic modelling and forecasting will give trivial or misleading results if they are based on too much of data constructed with aid of the same theory as the models are made up of. Models will in such a case always fit with the “data“. It will be even worse if data are presented as empirical facts or integrated in a framework with empirical facts so it will look as if constructed data has the same status as survey data.

Our interpretation is rather that exchange value is a statistical concept of how to measure the value of economic transactions. In cases where there is no payment or the payment does not cover all cost incurred by the producer several characteristics have to be taken into account when the value of exchange has to be estimated. One of these characteristics is the objective the institutional unit has as producer and provider of goods and services.

Fictitious costs

The AEG proposal does not change the main principle of how to calculate non-market output. The method will still be the sum of costs but the definition of costs goes beyond what normally is thought of as *actual* costs. It includes a *fictitious* part seen as a counterpart of the return on invested capital in private business enterprises. So, in that sense governments, according to AEG, are assumed to have the same objectives as privately owned enterprises, i.e. profit maximisation.

Treating the rate of return and consumption of fixed assets as the same kind of imputed transactions is in fact mixing statistics with economic theory. Assets are according to SNA generally valued according to the exchange value and not (as in economic theory) by their net present value. This implies that we normally perfectly know the total value of assets consumed (K1) in the production process. The value consists basically of *actual costs* whereas the transaction has to be imputed (paragraph 2.7). What remains more or less problematic is the distribution among periods and the revaluation of consumption of fixed assets as time passes but these are not specific problems related to this item (K1) but general problems in national accounting.

Overestimating income

Government output is mainly financed by taxes. Only a small part is sold as market output. Government does not need a positive operating surplus for financial reasons. Increasing output value and the value of government consumption by the same *calculated* amount doesn't add any statistical information. In fact it might even blur the analysis of governments. It will look like governments generates net income (to be shared among the owners?) by undertaking production but that's a false image.

The proposed method is also arbitrary and will reduce the comparability of NA among countries. Using an average government bond interest rate is arbitrary because the world financial market doesn't treat all countries equal for credit risk reasons like budgetary deficits, inconvertible currencies, political stability etc. This kind of interest rate is also based on expectations of the future inflation among other factors, i.e. an ex ante concept. Statistics, on the other hand, is first and foremost a matter of real outcome, i.e. ex post. And indeed, the rate of return on capital has very little to do with interest rates after (ex post) the investment has been made. Interest rates are rather used in the decision process before (ex ante) the investment has been made.

When it comes to the assets included the arbitrariness is a matter of sources and methods used by countries. And as we understand from comments made by countries, this is one of the least harmonized areas in the NA.