Non-market producers' owned assets - Cost of capital services (Issue 16)

We support the proposal to include the return to capital in the costs of using non-financial assets also for non-market producer for the following reasons:

1. It brings non-market producers into line with the treatment of the equivalent assets held/used by market producers.

2. While affecting net operating surplus, increasing output and final consumption by the same amount, the proposed treatment leaves saving and the financial accounts unaffected.

3. It ends with the current treatment which ignores the substantial social cost/opportunity cost of government investments. This is in particular problematic for capital-intensive production by the government, e.g. the provision of the services of roads, rails….

It nevertheless remains to be seen how many countries have sufficient data for the implementation of the proposal. The elaboration of guidelines might be a useful input which could be put on the research agenda.

Regarding the five questions listed in the document, we have the following comments:

**Question a:** Should a rate of return on assets used by non-market producers be taken to be the real rate of return of interest on all outstanding government bonds?

We support the proposal for three reasons:

1. A specific rate is needed for non-market producers, given the fact that the endogenous rate for market producers is highly volatile and problematic, and thus should not be used for non-market producers.

2. Taking all outstanding government bonds is a good solution. It means that we do not simply take the current rate, which may be volatile and heavily influenced by the current situation. Besides, taking an average term structure smoothes the effects of changes and incorporates elements of the maturity structure.

3. Taking a real rate of return has a converging effect on results, given the fact that nominal value may be misleading due to differences in inflation rates. International comparisons of results are thus less biased if real rates of return are used.

4. An expected real rate of return is a good solution given the fact that an investor has a long-term perspective. His decision-making process is based on expected values, and thus an expected rate is most welcome.

**Question b:** Should a rate of return for all assets such as computers, vehicles and buildings used by the employees of non-market producers in their regular work be included in the measurement of the output of the non-market producer?

We support the use of a rate of return for this type of assets, even though countries may experience problems when collecting data. These assets have opportunity costs which are quite similar for most producers, whether market or non-market.

**Question c:** Should a rate of return for assets such as roads and other infrastructure be included in the value of output of government?
Given the importance of these types of assets for government, research should be carried out in this field before a conclusion is reached. On conceptual grounds, we tend to agree to such a type of rate of return.

**Question d:** Should the SNA acknowledge that because data on such assets as city parks and historical monuments are often poor or non-existent, by convention no estimates of either consumption of fixed capital or a return to capital should be made for these assets?

Given the fact that costs involved are high and benefits limited, we fully support the proposal. Besides, imputations involved are important, and it is questionable if GDP should be heavily adapted on the basis of imputations.

**Question e:** Similarly should the SNA recommend a return to capital in respect of land under buildings and structures be included in the measurement of output of non-market producers where such information is available separately from the buildings and structures involved, but as a convention neither estimates of return to capital nor of consumption of fixed capital should be made in respect of other land held by government?

We agree with the proposal.