

DECISION OF THE AEG ON THE CLASSIFICATION OF MILITARY WEAPON SYSTEMS AS FIXED ASSETS

The Canberra II Group on the Measurement of Non-financial Assets presented its recommendations to the February 2004 meeting of the AEG. Their principal recommendation was to drop the current SNA's distinction regarding military weapon systems and treat them as fixed assets. This recommendation proved to be somewhat controversial, so a vote was taken and the proposal was approved; 15 members voted in favor, 4 members voted against, and 2 members abstained.

Background

In the current SNA, a distinction is drawn between military weapon systems that are designed for combat, which are treated as intermediate consumption, and durable goods that are used in much the same way as civilian assets, which are treated as fixed assets. However, military weapon systems are now maintained for long periods of time and decision makers in many countries wish to use capital budgeting techniques to plan for the eventual replacement of these systems. Furthermore, there is interest in harmonization with new international standards for public sector accounting that call for treating weapon systems as property, plant, and equipment.

Main recommendations

The Canberra II Group examined the economic processes of production in the provision of defense services. Military weapon systems were seen to be used continuously in the production of those services, even if their peacetime use is simply to provide deterrence. The Group reach a near unanimous decision concluding that military weapon systems should be classified as fixed assets. The AEG accepted the recommendation that classification of military weapon systems as fixed assets should be based on the same criteria as other fixed assets—that is, produced assets that are themselves used repeatedly, or continuously, in processes of production for more than one year. Moreover, military weapon systems in general are seen to meet these criteria because they are used continuously in providing defense services to the nation's residents, protecting their liberty and property.

The following related recommendations were also accepted. Expendable durable military goods, such as bombs, torpedoes, and spare parts, should be treated as inventories. The classification of assets should be modified so that gross fixed capital formation (GFCF) for weapons can be separately identified and presented. The implications of the recommendation for the *Balance of Payments Manual* and for *Government Finance Statistics* also need to be examined.

The AEG noted that there are important differences between military equipment and other equipment. There was general agreement that presentations of GFCF by type of asset should separately identify defense equipment. Finally, the AEG noted that it is necessary to keep in mind that the production accounts measure economic activity and not well being.