

**14th Meeting of the Advisory Expert Group on National Accounts,
5-9 October 2020, Virtual Meeting****Agenda item: SD5.1****Some Reflections regarding the Guidance Note on “Recording and Valuation of Data in National Accounts” (Agenda item 5.3.1)**

The recording and valuation of data and databases in the System of National Account is a complex issue, decisions on which may have ramifications beyond the topic itself. The treatment of data and databases raises a variety of challenging issues, from a conceptual point of view as well as from a measurement perspective. It requires thinking that typically tends to evolve by doing further research and taking into account the outcomes of in-depth discussions and exchanges of views. We therefore very much welcome and appreciate the progress made by the Task Team on Digitalisation. The current guidance note is a major step forward.

Having said that, we think that we are not yet there, and that further discussions and elaborations are needed. While we agree with the recommendations in the guidance note that, at least in theory, balance sheets should include the full ‘market value’ of data and databases (to provide, amongst others, a better basis to identify the contribution of data and databases to growth and productivity), and that ‘observable phenomena’ are not produced, we would like to express one point where we seem to disagree with the recommendations of the Task Team, and another point where we think further elaboration and clarification is needed.

Observable phenomena have intrinsic value

The guidance note states that the vast majority of individual observable phenomena (OPs) have zero or minimal intrinsic value of their own, and can thus be ignored. This is the central point of our contention, and a crucial point in an effort to close off conceptual loopholes and potential problems in the future. We do not feel that it is satisfactory or credible to say that individual OPs have zero or minimal intrinsic value, for the following reasons:

- (1) For a start, we do not feel that, as suggested in the guidance note, actual purchases of OPs can be dismissed as an exception to a general rule, especially as this has implications on the concepts. If the OPs have zero or minimal value, what exactly would be recorded in the accounts when actual transactions occur? We simply cannot pretend that these don’t occur. Even if we conclude that their scale is (currently) so small that they can be readily ignored, this is not the same thing as saying that they have zero or minimal value. Furthermore, we don’t know how this will play out in the future, where evolving data protection mechanisms may lead to alternative business models.
- (2) Secondly, even for OPs that are collected without a payment, squaring the notion that OPs have zero or minimal value with the reality of the significant resources used by firms to collect these OPs (and additional costs they incur to collect those OPs from differentiated users – e.g. high-net worth individuals) doesn’t stand up to scrutiny.
- (3) Thirdly, it is important to note that any decisions made with respect to how we look upon OPs has consequences for other areas of the accounts. In this respect, the decision to look upon OPs having zero or minimal value may have significant implications for how we view ‘free’ services that are provided to individuals in ‘exchange’ for their OPs. If, for example, there is a view that these services should be recorded in the accounts (whether in the core accounts – not our preference by the way – or extended accounts), the decision to look upon OPs as having zero or minimal value has obvious complicating implications here. One could argue that our preference to recognise

intrinsic value in OPs also pre-empts certain outcomes, but we feel that our approach leaves the debate on 'free' services completely open, as it allows for barter transactions to be recorded – in or out of the core accounts – as well as no transactions to be recorded, which to some extent is the only option available if one takes the 'zero value' approach.

- (4) Fourthly, perhaps our biggest cause of concern here, and also one of the reasons for our note, is the need to avoid introducing loopholes in the accounts. The idea that OPs have zero or minimal value means that any intrinsic value that they have and that feeds into the value of the database is de facto considered as resulting from production, directly feeding into GDP. Avoiding this outcome is perhaps the main motivation for our note. The same arguments that led to the 2008 SNA elaborations on databases are as relevant today as they were then, i.e. the need to avoid providing back-doors to the capitalisation of knowledge.

Reflections on explicit measurement guidance

Perhaps the key concern that we have with the current view on OPs presented in the guidance note is that it, to some extent, prejudices deliberations on practical measurement guidance, i.e. an articulation of which specific expenditures should be recorded as gross fixed capital formation (whether a sum of costs approach or alternatives are developed).

As noted, there is a significant risk that a view that considers OPs as having zero value will mean that any intrinsic value of OPs materialises as production (especially if there are actual market purchases of the OP). This may open a potential backdoor to many other forms of knowledge inadvertently appearing as production, but it may also result in an outcome that sits uncomfortably with the spirit of the paper, i.e. that OPs are not produced and so do not add to GDP. Effectively ignoring OPs, as the current note does, means that their value will in practice appear as production, as the accounts will need to find some way of dealing with actual transactions in OPs.

Further the decision to treat OPs as having, de facto, zero value is likely to have consequences for how we consider the value of databases in their broadest sense, and whether those values appear as an act of production or otherwise. For example, there has currently been very little debate on how we can practically (and conceptually) measure the additional value generated in databases from, for example, combining OPs together (through network effects and proprietary ownership). We feel that a fuller reflection of these practical and conceptual challenges, in addition to the concerns we raise above, is needed before we make decisions that may have unintended consequences.

A concrete step forward, in view of the above, would be for the current guidance note to include numerical examples that would allow for a better assessment of the consequences of the various conceptual options (together with practical measurement proposals for doing so), and their impact on gross fixed capital formation, GDP and, indeed, valuation on the balance sheets.