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Seminar

Addressing Information Gaps in Business and Macro-Economic Accounts to Better Explain Economic Performance

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Developments in the update of international standards for macro-economic accounts
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Introduction

- National accounts are at the core of information requirements for macroeconomic policy
 - Essential they remain relevant
- International standard for national accounts is the *System of National Accounts* (SNA)
- Last comprehensive revision of SNA was released in 1993
 - Process for update commenced in early 1980s and changes generally agreed by 1990

- 1990s and 2000s have been a period of rapid economic change
 - ‘New economy’, increased growth in productivity associated with technological developments, increase in importance of services, globalisation, financial innovation, focus on long-term fiscal sustainability of governments
- 1993 SNA has been periodically updated, but incremental approach was failing to keep pace with economic developments
 - In 2003 UNSC endorsed an update
 - 44 update issues rather than a comprehensive review
 - Update to be completed by 2008
 - Coinciding with update of IMF’s *Balance of Payments Manual*

The update process

Six essential features

1. Identification of update issues
2. In-depth investigation of 44 issues
 - o Relevant policy experts involved
3. AEG consideration of conclusions
 - o AEG members consulted with policy analysts
4. UN member country consultation on AEG provisional recommendations
 - o Further consultation with policy analysts
5. UNSC consideration of AEG recommendations
6. Finalisation of 2008 SNA
 - o Volumes 1 and 2

- However, compromise was required in a number of cases
 - National accounts are used for purposes other than policy purposes; other users may have different needs
 - Different policy analysts have different needs
 - Across countries and within countries
 - Feasibility in practice
 - Need for sound source data
 - Capabilities and capacities of statistical agencies vary
- As an international standard, the SNA should ideally be able to serve the needs of all countries equally

The update issues

- Issues concerning non-financial assets
- Issues concerning government and the public sector
- Issues concerning financial services
- Issues concerning financial instruments
- Issues concerning the rest of the world
- Issues concerning units
- Issues concerning informal and illegal activities
- Other issues

How the update will help policy analysts

- Research and development – role of knowledge capital
- Cost of capital services – integration of wealth and productivity accounting
- Employee stock options – true picture of profitability, wage costs
- Employers' pension schemes – long term sustainability of government and finances
- Originals and copies – a better understanding of how reproducible assets are used in production
- Financial assets classification – more relevant to the needs of policy analysts, particularly in Central Banks

Digression # 1 – capital services

- An asset's value is equal to the NPV of the income it generates (ie its capital services)
- Depreciation is equal the benefit used up less the 'unwinding of the discount'
- User cost of capital is equal to depreciation plus opportunity cost (return on capital)
- Unwinding of discount equals opportunity cost
- Therefore, user cost of capital equals capital services
- Capital services links the productive role of capital with its wealth (balance sheet) values
 - The pattern of capital services over time is known as the age efficiency profile
 - From this, the value of an asset over time – the age price profile – can be derived

Timetable

- February 2007 – UNSC decides on 44 update issues
- February 2008 – UNSC adopts, in principle, Volume 1
- Mid 2008 – Volume 1 available electronically
- Early 2009 – UNSC to adopt Volume 2
- 2009+ -- Implementation by countries
 - Seminars and training, technical assistance, manuals and handbooks, research, advocacy

Unfinished business?

- Cost of capital on assets used in non-market production
 - Return in capital is not included in value of non-market production
 - Inconsistency with assets used in market production
 - Zero rate of return assumed
 - Undervaluation of non-market production
- ‘Marketing’ investments
 - Only recognised when evidenced by a sale
 - Own account investments not recognised
- Human capital
 - Not an update issue, as it would have involved fundamental change

Digression #2 – Human capital

- Probably the single most important ‘asset’
 - Key element in economic analysis and policy discourse
 - Issues include investment in and returns to education, role of human capital in production, economic impact of an ageing population
- ABS has developed research estimates of human capital using a national accounting framework
 - Based on data from 5-yearly Censuses
- In 2001, stock of human capital estimated to be AUD 7 trillion (cf AUD 2 trillion in produced assets), with average annual gross investment in post-school education and on-the-job training about AUD 120 billion (cf about AUD 150 billion on GFCF)

Maintaining relevance

- Continued rapid change in global economy and user needs
 - Financial crisis, climate change, water security, food crisis
 - Ongoing engagement with users is essential
- Further research into methodological issues/developments in accounting standards
- Unlikely to have ‘luxury’ of 15 years between updates
- Formal national and international mechanisms required
 - High-level group to provide direction

Digression #3 – the economy and the environment

- Two-way interaction between the economy and the environment
 - Important that these are understood for policy purposes
- Environmental-economic accounting can assist in understanding these interactions
 - UN Handbook on Integrated Environmental-Economic Accounting
 - Satellite of SNA
 - Being transformed into an international standard
- Future measurement challenges
 - “Green” GDP, Environmental-economic-social interactions, Sustainability

Conclusion

- Updated SNA will make a difference for policy analysts
 - Better representation of where economies are at
- However, there are still issues that need to be worked on
- Furthermore, economies will continue to change rapidly
- Increased interest in interactions between economy, environment and society
- Imperative that that international statistical community finds a way for the SNA to continue to remain as relevant to policy analysts as it can be
 - Otherwise, others will do it for us!