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 (i.e., its capital services)
- Depreciation is equal to 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!