Comments: SNA 2008 (1993 Rev 1), from AEG member Robin Lynch, 28 April 2008

General comment

The style is clear, but could give problems for a non-English speaking reader. The main barrier is the use of relatively complex words and phrases This comes from follows the academic paper style rather than a guidance manual for a wide range of statisticians in terms of experience and knowledge. A second barrier is the use of long sentences.

An example is the second sentence of paragraph A 1.1.

Instead of

“The recommendations are expressed in terms of a set of concepts, definitions, classifications and accounting rules that comprise the internationally agreed standard for measuring such items as gross domestic product (GDP), the most frequently quoted indicator of economic performance.”

It could say

“The recommendations cover a set of concepts, definitions, classifications and accounting rules. They are the international standard for measuring items such as gross domestic product (GDP), the most commonly used measure of economic activity.”

The whole text could be put to the FOG test, and where there is a high score, changes made along the lines suggested above.

Chapter 1: Introduction

List of contents, D.6, typo capita..l

1.24 Long sentences.

Re-write

As well as the accounts described up to now, the System also includes detailed supply and use tables. The tables provide a supporting framework for the estimates in the production and generation of income accounts, whereby the supply of individual products can be matched by demand for these products. Supply comes from domestic output and imports, and demand is intermediate and final demands such as household spending, exports, etc.

1.29 typo – imports,etc

Links with business accounting

Business accounts and have national accounts are different systems for different purposes. The main purpose of business accounts is to present information for a single entity so that the financial status and viability of the entity can be assessed. There is no absolute need for counter-party records to be entered consistently in their respective business accounts. But national accounts is an articulated system, and the two aspects of a single transaction are by definition and concept equal and opposite, and must be recorded as such in the accounts representing the two different sides to the transaction.

A second major difference is that the national accounts only show transactions and positions that have occurred or are going to occur. Business accounts place more emphasis on the risks to a business, and may show provisions and contingent liabilities in the financial reports, which for lack of a certainty of event and identification of a counterpart, may not be entered into the national accounts.

I suggest it would be helpful to describe these different purposes and entries in describing the links between business and national accounts.

Chapter 2

No comments

Chapter 3

3.40 Typo”to s a constructive”

Section E

3.111

There is duplication between first sentence and third. Omit first, and put second after third.

Chapter 4

4.23 For reading, it is better to repeat short-hand the attributes of 4.2 than refer to them without description.

Re-write

The attributes of an institutional unit described in 4.2 such as owning assets, responsibility under law for actions, being able to incur liabilities and to construct a complete set of business accounts, all explain why it is not possible . . .

4.29

First sentence – missing / wrong words?

Possible re-write

The financial corporations sector includes the following: all resident corporations whose principle activity is financial intermediation, and auxiliary financial *corporations* that facilitate financial intermediation or *the activities of* other financial corporations

4.58 typo If t is resident

4.119

a. the unit charges prices for its outputs that are economically significant.

This is one way in way to determine whether a unit is operating in the market, or whether it is non-market. Rather than only quote this one, and give the impression the other criteria of market production are less relevant, it would be more appropriate to quote the market criteria directly, as follows:

a. the unit produces goods and services for a market – the unit is free to set a price, the receivers have a choice of suppliers, and the sales of the goods and services that are marketed are at economically significant prices.

Chapter 5

No comments

Chapter 6

6.4 typo imposed by(and

6.13

This is a new idea, without a lot of introduction. I don't remember any discussion in the Canberra group or AEG on what makes up a knowledge-capturing product. It comes across to me as something that I called an access device – a good that enabled an intellectual property asset to be shared. This paragraph would benefit from a simple example, and I presume one would be the Compact Disc (CD) that enables a performance of a song to be shared. If this is correct, then such an example would enable readers to more quickly grasp the nature of a knowledge-capturing product. But the label is long and not easy to say, and may not stand the test of time.

6.16

In the SNA 1993, this paragraph came after one that has been omitted – the omitted paragraph gave the reader an intuitive feel for what a service was, before qualifying it by 6.16. I think the original introductory paragraph should be re-introduced. It was

"Services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous

outputs produced to order and typically consist of changes in the condition of the consuming units realised by the activities of producers at the demand of consumers. By the time their production is completed they must have been provided to the consumers."

Presumably the reason for omission stems from the recognition of intellectual property as an asset. This can give rise to the concern that rather than intellectual property being shared, the new model is that intellectual property just like any other asset provides a stream of services. But this leads to the paradox that we have a knowledge-capturing product whose main purpose is to allow the recipient to benefit repeatedly from the service from an intellectual property (the tune and performance in the case of the CD). I believe that the inability to satisfactorily define a service that covers the existence of knowledge-capturing products reveals an inconsistency in the System, which can only be resolved by altering the model of how intellectual property benefits are passed to the consumer, from the asset and services one to that of sharing a "public" good.

I know that this argument was advanced in the Canberra Group and at the AEG and was rejected. But I believe that only a return to the model of access devices (the physical CD) and the sharing of intellectual property (by paying a licence fee for access for a set time, unlimited in the case of the CD) will enable us to return to the previous satisfactory definition of what constitutes a service.

However, as we are where we are, I can only observe that the current definition of service is inadequate, and a new version of SNA 1993 paragraph 6.8 is needed, to make sense of the following SNA 2008 6.16.

Table 6.1

I cannot see reasoning why the international trade measures should be included and identified separately in the new version of the production account. It is a change from the old version, but I am unaware of how and why this change was adopted. I don't think it is necessary.

6.17 Transformation services and margin services

Do we need this? I thought all of the old SNA 1993 was fine on Services, except for 6.13 where, as intellectual property is not recognised as an asset, it does not cover the sharing of the knowledge (the delivery of the associated service) in a way which is consistent with the new SNA. Only this paragraph needs to be replaced by a discussion of the "knowledge-capturing products", and description of how they fit into the goods and services world (or not if they don't).

6.19

Omit "In general the changes may be presumed to be improvements, as services are produced at the demand of consumers". This sentence strays dangerously into welfare economics, which the System does not attempt to account for. The point is that consumers are prepared to pay money for a service, so what we know is that consumers want to experience the service. Whether it improves them or not is irrelevant.

6.20 and 6.21

These paragraphs are not necessary – there is no fundamental difference between transformational services and margin services in the manner described. If there is a difference, it is the existence or not of a contract between supplier and consumer.. For transformational services, there will be a mutually agreed contract of what is supplied and demanded. A margin service contract will be embodies in the nature of the good being supplied,

6.22

Knowledge-capturing products (KCPs)

The SNA 2008 paragraph 6.22

Knowledge-capturing products concern the provision, storage, communication and dissemination of information, advice and entertainment in such a way that the consuming unit can access the knowledge repeatedly. The industries that produce the products are those concerned with the provision, storage, communication and dissemination of information, advice and entertainment in the broadest sense of these terms including the production of general or specialised information, news, consultancy reports, computer programs, movies, music, etc. The outputs of these industries, over which ownership rights may be established, are often stored on physical objects (whether on paper or electronic media) that can be traded like ordinary goods. They have many of the characteristics of goods in that ownership rights over these products can be established and they can be used repeatedly. Whether characterised as goods or services, these products possess the essential common characteristics that they can be produced by one unit and supplied to another, thus making possible the division of labour and the emergence of markets.

6.22 seems a repeat and enlargement of material found in the preceding services section. It would be better having this paragraph earlier so that the reader is given a more careful introduction to this new idea.

The obvious difficulty in describing what a KCP is, stems from the model which has been adopted for the new SNA – that copying intellectual property creates a new product which has the attributes of an asset if it is used in the production of other goods and services over a long period of time. The model assumes that KCP value comes from the intellectual property and from the good that is being used to allow others to benefit from the service of this asset. But this ignores the fact that intellectual property is quite unlike other assets – the essential difference is that knowledge is not distributed out from a reducing store of value, but rather the knowledge is shared as a “public” good.

So given adopted model for the System, an explanation of KCPs as a bundle of goods and services is difficult. For example, the statement is made that “the outputs of these industries, over which ownership rights may be established, are often stored on physical objects that can be traded like ordinary goods".

But the first sentence suggests that the output of the industries are the KCPs which include the physical goods as part of the product. So there is an inconsistency here. Second, "the physical objects can be traded like ordinary goods". But the key difference between KCPs and ordinary goods is that they enable access to intellectual property which is protected by copyright laws. So there are very explicit conditions of what can and can't be done with KCPs, imposed by the supplier under threat of law. And these conditions can refuse the trading of the goods as this would effectively allow a new access to the intellectual property, breaking the copyright agreements. So another inconsistency has arisen.

6.27 c

What is a knowledge-capturing service? 6.22 is necessary because of the hybrid nature of the knowledge capturing product – neither wholly good or service – so an explanation is needed of how this term is being used.

I don't think we need c – KPCs are not sufficiently a special case of own production of assets to deserve a special mention

6.34

The case is made so well for the exclusion of household services in the preceding paragraphs, that this one small paragraph justifying the inclusion of services of owner-occupied dwellings seems inadequate. All of the arguments for inclusion are valid for a satellite account approach, but breaking fundamental rules for the sake of easier comparison is not justified by the existing paragraph.

6.96

"Market output consists of output for sale and output for own use"

This is inconsistent. The AEG meeting in March 2007 agreed that P11, P12 and P13 were different classifications in their own right, and one was not a sub-classification of another. (See SNA 1993 6.44 "A fundamental distinction is drawn between market output, output produced for own final use, and other non-market output." The implication is that output produced for own final use is non-market.)

There is market output (P11), Output own use (P12), and Non market output (P13).

6.123

Measuring the output for own use, including an estimate of the net return to fixed capital as a production cost is inconsistent with the valuation agreed for government and NPISH non-market output – the sum of production costs omitting an estimate of the net return to fixed capital.

Including rent on land used in production, if any, is a fundamental change to the use entries of the production account of the System, and as such is inconsistent with the rest of the system.

So both d and e should be omitted from the list of production costs.

6.128

Omit d. Rent on land used in the production, if any;

Market and non-market producers

6.131

Market producers are establishments, all or most of whose output is either output for sale or output for own use. Non-market producers consist of establishments owned by government units or NPISHs that supply goods or services free, or at prices that are not economically significant, to households or the community as a whole.

This definition opens an unnecessary door to having establishments who mainly produce output for own use, to be classed as market producers. If this definition was applied to the military institutions of government, as by convention government is taken to consume its own output where the public services are collective, there could be a case for classifying military institutions as market producers. And this is inconsistent with the treatment recommended elsewhere in the System. A second example to demonstrate the danger of this definition is to consider subsistence farmers, who mostly produce for own consumption. By this definition, they would be included as market producers, even although their produce did not appear on the market. This would be inconsistent with SNA 1993, and I am unaware of any agreement in the update to treat the output for own final use differently from that advocated in the 1993 SNA.

In this document, the following support the treatment of output for own final use as non-market production.

1. It passes all the tests normally applied – there is no price setting by the supplier, there is no choice of price and supplier for the user, and of course there are no economically significant prices at which the goods are traded.

2. P.13 is labelled “Other non-market output”, the clear implication being that there is another form of non-market output, that of P12.

3. SNA 1993, 6.52 “It is perfectly possible for market producers, both small unincorporated enterprises and large corporations, to have some non-market output in the form of production for own final consumption or gross fixed capital formation.” This unequivocally labels own use production as non-market.

Borderline cases such as (banking) supervisory services

6.151

This seems very special pleading, despite the sentence at the end. This says

"However, even if the view is taken that supervisory services are market output because a fee is charged, if the fees are not sufficient to cover the supervisory costs incurred by the bank, then the services should be treated as non-market output and part of government consumption expenditure. "

But one way to identify non-market output is to say whether the prices charged are economically significant i.e. whether the sales cover more than 50% of costs. There is no mention of 50% in the new paragraph.

Chapter 7

7.13

The first sentence is inconsistent with the decision not to include cost of capital in the calculation of government output, and should be omitted. It is quite possible for the costs of rents and interest charges to be met by other corresponding transfers of rents and interest charges.

SNA 1993 Rev 1 Comments Part 2 – Robin Lynch AEG member

Chapter 8

No comments (but see below regarding taxes and service payments for licences)

Chapter 9

9.71 Licences and fees

This paragraph is inconsistent with the chapter on government and the treatment of licences included in it, and agreed by the Canberra Group and the AEG. This issue was raised in the AEG meeting 2007, but no action has been taken.

It is inappropriate to quote common practice, as a basis for deciding which payments should be classed as taxes, and which as service payments. Given the work of Canberra and the AEG on how to treat payments for licences, a general statement is necessary to give countries guidance under the new conceptual framework. This statement should be consistent with the Vol 2 chapter on General Government and Public Sectors (paragraph 127 in the draft).

This is, that payments for all licences are to be treated as taxes, unless the payments are similar to the actual expenses in administering the licence and licensed activity. So it is quite conceivable that the passport fee in one country could be treated as a service, as it is low and commensurate with the administrative service of issuing passports. But in another country the administration may take advantage of the passport requirement of many citizens to charge a fee, which is out of all proportion to the administration costs. In this case, the passport fee should be treated as a tax.

So it is wrong to give a list of payments by type as characterised as a tax, and others as a service fee, irrespective of country practice.

Chapter 10

10.186

Taxi licences and casino licences

This is inconsistent with the agreement by the AEG that payments for government licences, whether restricted or not, should be classed as taxes. The licence is therefore not an asset, as taxes are defined to be unrequited payments.

As discussed in AEG, the licence can act as a financial asset for the payer, as it represents the pre-payment of a tax for the period of a licence. If there is a market allowed for the trading of such licences, then the value of the licence as a financial asset can be observed.

Chapters 11, 12, 13, 14, 15, 16

No comments

SNA 1993 Rev 1 Comments Part 3 – Robin Lynch AEG member

Chapter 17, Part 5

Licences and permits to use a natural resource

The exposition is biased to the assumption that mobile phone licences should be treated as a non-financial asset. The whole of sections 17.305 to 17.310 should be omitted, and a general exposition on the nature of licences to use natural resources replace it.

This case was not sufficiently discussed by Canberra or the AEG to justify this extensive set of recommendations.

17.314

This is inconsistent with the decision to treat all payments for licences beyond the cost of administering the licence, as a tax. As taxes are unrequited transactions, there can be no non-financial asset transferred. The description of rise and fall in values of the licence and the spectrum represent changing values in financial assets – the real value of the spectrum remains unchanged throughout the licence period.

Section S Permits to undertake a specific activity

The key issue is whether the payments for a permit can result in a financial or real asset. So it is confusing that this distinction is not maintained in the presentation, and the word asset is used without qualification throughout.

17.339

The inconsistency of classing payments for the licences as taxes, and then showing the tax-payer as acquiring a real asset, is repeated here.

The fact that the asset is said to appear in the “changes of volume” account reveal the unsatisfactory nature of this model – the creation of a real asset out of nothing.

The coverage given to this issue, and the unsatisfactory nature of the reasoning, suggests that most of this section S should be omitted. The example is too detailed and abstruse for inclusion.

Section T

Contracts for future production.

This section is wrong. Contracts that are tradable take the form of financial assets, not real ones.