Comments on draft SNA Volume 2 Global Review

Deadline for comments: 15 February 2009
Send comments to: sna@un.org

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General comments

I would like to commend the authors and the many staff involved in the production of the 2008 SNA Volume 1 and Volume 2. This is an impressive work and provides many improvements in guidance, coverage and quality compared with the 1993 SNA.

Regarding Volume 2, this is more challenging as it aims to cover many areas which are on the periphery and not part of the core accounts. In general, this has been an impressive effort.

I recognise, and appreciate, that many of the UK comments on the draft chapters have been incorporated. However, there are many key comments (many of these are factual, identifying errors and not subjective) which have not been incorporated, and need to be addressed. This work may imply some additional time is needed, but this is a price worthwhile if correctness, and content improvement, is to be achieved. In particular, many changes are needed to Chapter 28 before the chapter can be deemed acceptable.

Overview of response

The structure of the UK response covers:

- Major issues.
- Structure and sequence of SNA Volume 2 chapters.
- Style and consistency points for this chapter and/or across SNA chapters.
- Terminology and reference to GDP and GVA.
- Substantive comments on each specific chapter.

In this feedback, unlike the draft chapters, I have avoided providing detailed comments covering presentation, grammar and punctuation.

Major issues

In each of the chapters, there are many issues raised. In particular, there are many key comments (many of these are factual, identifying errors and not subjective) provided by the UK as feedback to the draft chapters which have not yet been incorporated, and need to be addressed.

Major issues which require discussion/agreement include:

- Treatment of land and intellectual property assets (see comments in Chapter 21).
- Clarity on the guidance over the market/non-market classification criteria, in particular the use of the 50 per cent rule (see comments in Chapter 22).
- Treatment of goods for processing (see comments in Chapter 28).
- Chapter 28 is far from adequate, and contains numerous outstanding issues, omissions and errors identified in the draft chapter which still need to be addressed (see comments in Chapter 28).

Other key issues:

- Need to include a **separate chapter on Social Accounting Matrices** (SAMs). To leave the coverage of SAMs in the I-O chapter seems inconsistent and not giving the appropriate weight to such subject matter. If a separate chapter is not desirable, then the SAMs should be moved from the I-O based Chapter to the Satellite Accounts Chapter, which reflects a range of other matrix based systems.
- Need to consider a **separate chapter on Regional Accounts** given the growth, prominence and interest in this area of work.

Structure and sequence of SNA Volume 2 chapters

- Overall comment on SNA 2008 Volume 2. Having now read, and commented on, all the draft chapters in Volume 2, the **sequence of the chapters in Volume 2 should be reviewed and changed**.

- The flow would be improved by having the Elaborating the Accounts (Volume 1 and Volume 2 join/overview) chapter followed by chapters on specific institutional sectors, followed by the Input-Output chapter, and then the others, which are rather mixed and move further away from the core National Accounts.

- An alternative proposal, including a chapter on Social Accounting Matrices and Regional Accounts, which provides a much better, and more logical, flow for Volume 2 is provided below:

  - Elaborating the accounts
  - The Government and Public Sectors
  - Households
  - Non-Profit Institutions in the System
  - The Rest of the World Account
  - Input-Output and associated analyses
  - Regional Accounts
  - Social Accounting Matrices
  - Satellite Accounts and other extensions of the System
  - Role of capital services in the National Accounts
  - Population and labour inputs
  - The informal sector
  - Links to monetary and financial statistics
  - Measuring corporate activity

Style and consistency points across SNA chapters

This section evolved through the process of the feedback provided on the draft SNA chapters. This should be considered as a check list reflecting various issues identified through the chapters to date but the issue(s) may or may not occur in each and every chapter.

These are a number of specific points which you may wish to consider for "consistency" in the editing of the SNA Volume 1 and 2 as a whole publication. Examples include:

- There are various occurrences of American spelling and English spelling of words. I do not know which approach you are applying but consistency within each chapter, and across the chapters, is necessary. I would recommend the English spelling (not surprisingly!). For example, "maximization" should be "maximisation" and "categorization" should be "categorisation".

- There is an important style point which increases the usefulness for the reader. Many of the cross-paragraph references, for example, if there are exclusions in a list of examples, to know where the exclusions are included elsewhere in the SNA in the same text reference is extremely helpful. Although it is time and resource intensive to cross-check all such references, this needs to be balanced against the value and usefulness for the reader as well as ensuring consistency across the SNA.

- The separation of either a list of examples or list of bullet points need to be consistent across, e.g. ";" followed by for the penultimate point with "and" or use full stops for each point. Whichever the approach, it needs to be the same across the SNA. Also the beginning of a bullet point should start with a capital letter or a lowercase letter, again consistency is needed.

- In the text, reference to tables throughout should be as either "Table x.x" or "table x.x" but not a mix of the two versions.

- Use of Latin phrases or the English equivalent written in full? Again, consistency is the underlying theme, I am happy with either approach.

- "Et cetera" when abbreviated should be "etc." with the full stop, this is often missed.

- Numbers versus text, where values of ten or less should be written as words, except when related to measurement (e.g. 2 km), percentages (e.g. 5.0 per cent) or values (e.g. £5.00, $5 million, £3 billion).

- Widows/orphans, i.e. sentences and paragraphs crossing over two lines and pages respectively.

- "Centre of predominant economic interest" - other variations of this phrase should be avoided.

- Nonmonetary should be non-monetary as used in the context of gold.

- Various text references to "paid" or "received" should be reviewed and changed to either "payable" or "receivable" as appropriate.

- References to net lending/borrowing equate to surplus/deficit, sometimes written the wrong way round.

- Need to be clear when referring to either "rent" or "rental", sometimes the terms are inter-changed.

Terminology and reference to GDP and GVA

- There is a need for consistency and correctness in the way references are made to GDP. There is **one estimate of GDP** and there are **three approaches to measuring GDP, production, income and expenditure.** When using reference to one approach, it should be written as **production approach to measuring GDP** and not the production measure of GDP – same applies when referring to the other approaches. In terms of GDP, reference should be to production and not output, however in terms of the industry, the reference to output is valid. This approach needs to be used throughout.

- Reference to "current values" should be replaced with "current price values" or "values in current prices", either version is much clearer.

- When referring to value added, it should be made clear whether it is gross value added or net value added. Without the clarification, the text can be misinterpreted.

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Chapter 18: Elaborating and presenting the accounts

Some of the detailed comments (many of these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- More detail and the treatment of a number of other areas (briefly) is needed to provide a fuller and more balanced picture:

    - There is a section on "Accounts in volume terms", prior to this section, there should be a brief section on "Accounts in current prices" improving the join between the sections but minimising any repetition from Volume 1.
    - Need to mention the existence, the need and the timing of 1st estimates (sometimes called "flash") of GDP and subsequent revisions – enhancing the timeliness versus quality issues.
    - Need to cover the timing of the 1st set of quarterly accounts, annual accounts and the interactions like benchmarking and data reconciliations.
    - Drawing out "key derived aggregates" from the accounting structure and their emphasis, for example, GDP, GDP deflator, cost of living indices, household savings ratio, government debt and deficit, corporate lending, etc., and their roles in policy for example, for government, finance ministries and the Central Banks.
    - Link to productivity (for example, labour, multi-factor, etc.).
    - Need to reflect the burden on business and compliance targets as an important criteria for national accounts data collection strategies.
    - Revisions - need to cover the challenge to maintain both "consistent" levels and growth rates over a long period of time.
    - Paragraph covering other extensions to the national accounts framework like Environmental Accounts, Social Accounting Matrices and other satellite accounts.
    - Purchasing power parities.
    - Links to different types of micro and macro research by analysts, researchers, academics, etc.

- The need for consistency and style points also require addressing, for example, the references to the approaches to measuring GDP are inconsistent, and in some cases are wrong. Please refer to the "Terminology and reference to GDP" section covered earlier in this response.

- In Table 18.3, the following should be included:

  - Under NPISHs, should reflect "*Possibly include summary detail by product or COPNI*".
  - Under government, should reflect "*Possibly include summary detail by product or COFOG*".
  - Under Changes in inventories, exports and imports should reflect "*Possibly include detail by industry and product*".

- The income section needs to recognise that the income approach to measuring GDP can itself be compiled in three different ways, and should be undertaken in an integrated manner providing greater consistency and coherency across the accounts. The three ways being:

  - By industry.
  - By institutional sector.
  - By type of factor income.

- Paragraph 18.25: The reference to "…direct volume measures may be considered" should be strengthened and say, "… direct volume measures should be considered".

Chapter 19: Population and labour inputs

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- There are a number of areas worth covering to provide greater links of population/labour data with the core national accounts framework:

  - Classifications – need to cover the types of classifications used and their key features, such as the Standard Occupation Classification and the links with business industrial classifications.
  - Surveys – role, significance, differences and benefits played by household surveys as opposed to business surveys to provide labour and employment detail. Only a limited reference is made in Paragraph 19.69.

- In particular for productivity, it needs to be made clearer the differences between the residence criteria/definitions for labour and that used within the SNA production boundary, and the steps required for consistency with the coverage applied to GDP/GVA.

- Paragraph 19.12, "… will be experiencing…" should be replaced with "… may experience…" as there could be other factors which prevent an increase.

- In Paragraph 19.56, the use of "average wages for a worker" is an approach but need to recognise that "average wage per hour" would provide a better approach.

Chapter 20: Capital services and the national accounts

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- Section on land needs to present that land plays a complex role in the economy, and this is reflected in the way it is recorded in the national accounts. The reader will benefit knowing these issues. For example, points to note, rent is traditionally shown, not as a capital service - a cost in the production account, and recorded within operating surplus. Why is the payment for the use of land shown as rent, as a separate transaction not in the production account but shown as property income in the allocation of primary income account? Land as a location generates payments of rent (recorded as property income transfers) because the land is not used up in production. Therefore, there can be no associated "quantity" of capital services delivered by land. Value of land can vary due to demand and not a wearing away of the asset with an associated volume delivery of a service. If this is not accepted, then it needs to be made clear, how can land deliver a quantity of capital services if there is no reduction in asset value due to a reduction in quantity? If there is no quantity delivered, then it follows that rent must be shown as a property income transfer between landlords and tenants - which is partly covered.

- Need to cover other assets. For example, the treatment of other intangible capital assets such as computer software (own account and bought-in) and R&D etc.? With bought-in computer software, issues such as varying and short asset lives should also be covered.

- Treatment of intellectual property assets should be covered. It should be made clear early in the chapter that not all assets generate capital services. For example, intellectual property assets do not provide to capital services but contribute to the production function. These assets exhibit the characteristic of not possessing a quantity attribute. An idea does not have a unit but assets may be generated from an idea. Thus payments for the use (sharing in) of intellectual property assets are also treated as property income transfers, and do not form part of the production account, and are shown alongside rent in the primary income allocation account.

Chapter 21: Measuring corporate activity

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- Industry and market structures, for example, links between industries and institutional sectors as used in the National Accounts/Business Surveys and the main market structures like perfect competition, monopolies, monopolistic competition and oligopolies.

- Globalisation, for example impact of globalisation on the treatment of units, transactions, etc. and recognising the issues and difficulties. Changes in company structure and practice, for example, different types of goods for processing, toll processing, merchanting, etc.

- Need a section linking Business Accounts with National Accounts, covering for example:
  - Rules and methods on business accounting;
  - Practical issues/differences; and
  - Transition from business accounting to national accounting.

- Paragraph 21.18, 1st sentence, should be "owns" rather than "controls".

Chapter 22: The general government and public sectors

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- Much more **clarity over the 50 per cent market/non-market classification guidance is needed**. For example, a producer may charge prices that do not cover 50 per cent or more of their costs yet charge prices which are economically significant. These prices may be lower than the market prices that would be charged by a market producer providing the same type of goods or services, and say, cover only 30 per cent of the costs. In this case, the producer would be treated as a non-market producer. This does not seem consistent – should the guidance stipulate a higher percentage?

    SNA 2008 Volume 1 does not specify a percentage, but provides more information than SNA 1993, including that costs are covered by sales. Therefore, it effectively sets a limit of 100%. The draft of SNA Volume 2 is contradictory.

    Paragraphs 22.28a and 22.29 are contradictory. Paragraph 22.28a is in line with Volume 1. In Paragraph 22.29, delete "the majority of", if not, delete the paragraph. This paragraph introduces a different idea about the majority of costs (what does this mean?) and also states "average at least half of the production costs" (e.g. >50%).

- Need to improve the **consistency of the use of terminology**. Presently this causes misinterpretation, for example:

    - "Public unit" should be referred to as "public sector unit".
    - "Units" in some cases are correctly referred to as "institutional units" and in other cases just as "units".

Some other specific comments:

- Paragraph 22.26: More description needs to be provided for the list of indicators. The first three are fine, but the last two are not really control indicators - they are areas where there may be reasons for controls to be present and thus be investigated.

- Paragraph 22.37: Similar to the table in chapter 4, this is overly simplified in the case of certain public authorities in the financial sector. For example, if the suggested route is followed then supervisory authorities are wrongly classified.

- Paragraph 22.45: After "…must keep complete set of accounts", need to add "or such accounts can be constructed".

- Paragraph 22.46: 1st sentence needs a public sector qualifier.

- Paragraph 22.172: 1st sentence is not always true. Traditional UK PSBR is very different to this. For example, in the UK, this is known as public sector net borrowing as this is more precise – better to retain a precise description.

Chapter 23: Non-profit institutions

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- In terms of structure, there should be a section covering the treatment, and measurement, of NPIs (both market and non-market NPIs, and in current prices and volume terms) in the sector and national accounts, including GDP, **before** the sections on the Satellite Account etc.

- Need to provide explicit criteria for determining where NPIs are market or non-market.

- Need to cover the role of NPISHs as a producer and as a consumer.

Chapter 24: The households sector

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- Employee stock options.
- Employee pension schemes and pension contributions.
- Evasion, hidden economy and illegal economy.
- Under-recording and under-declaration of incomes.
- Households' savings ratio.
- Real household disposable income.

Chapter 25: Informal aspects of the economy

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- Need to cover how the informal production activities are measured in volume terms.

Chapter 26: The rest of the world accounts and links to the balance of payments

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not yet been incorporated, this needs to be addressed.

Other areas to be considered:

- Paragraph 26.21: the described treatment of a "negative export" seems intuitively and conceptually incorrect. The purchases of goods for resale without any further processing, which are then sold, the difference should be treated as the output, i.e. gross distribution margin, and reflected as part of the resident country's output

and export, and not as a negative export. If the sale value is less than the purchase value, then the value of export would be negative matching the negative output entry. The negative sign should not denote a flow. If held for more than one period, then the change in inventories should be matched with the corresponding value in either imports or exports as appropriate. The present treatment will pose data collection problems between domestic and import/export sources and balancing by product issues through the Supply and Use Tables.

- Impact of globalisation on the treatment of units, transactions, etc. and recognising the issues and difficulties.

- Some illustration of how to handle the different types of goods for processing, toll processing, merchanting, etc. with either diagrammatic or numerical examples.

- How are airline and ticket sales treated? Addressing the centre of predominant economic interest and the ticket sales in different countries from the main country base aspects (via a table or diagram) would be very useful in highlighting different aspects and aid the readers (both producers and users) understanding. Similarly for shipping.

Chapter 27: Links to monetary statistics and the flow of funds

No additional comments.

Chapter 28: Input-output and other matrix-based analyses

This chapter is of concern, in that it still needs many changes to address the structure, content, omissions and errors.

Many detailed comments (these were factual and not subjective, including highlighting some errors) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- Present **treatment of goods for processing** poses inconsistencies in compiling Supply and Use Tables, and difficulties in achieving coherent data collection. We cannot provide generic guidance for all the cases, as a result, it will be confusing three key aspects:

    (1) No change of ownership has taken place as no transaction has taken place;
    (2) Goods are physically moving across borders and have a value, affecting the trade data; and
    (3) The goods have changed their characteristics (i.e. parts classified to different products assembled into a different final product, which is a significant transformation).

    The SNA update and the new Balance of Payments Manual suggest that imports and exports should be recorded on a change of ownership basis. However, there is further clarification needed distinguishing economic ownership versus legal ownership. Goods processed in one country on behalf of another will no longer be recorded as imports and exports in the balance of payments and SNA. It is proposed that instead an import and export of a service be shown in the country respective balance of payments. Where the goods are valued and recorded in the country's trade in goods statistics, it is proposed that the imports be recorded alongside the corresponding later exports so that a processing service can be derived from the difference and recorded appropriately in balance of payments and national accounts.

However, this proposal works well where the goods are clearly goods for processing in the original definition. In other words, the goods do not undergo a transformation, but remain essentially the same goods by name, but having undergone some kind of marginal transformation. An example would be car bodies imported for painting and then returned to the car assembly line/sale in the originating country. The appropriate product description and trade classification code would not change, but the returned bodies would be of higher value reflecting the paint finishing service provided. Ownership has not changed, and so the proposed recording of a service charge for painting would be recorded in the balance of payments and national accounts.

It is still unclear what is proposed for components supplied by a parent company to a group subsidiary or another producer unit in another country for assembly, and then returned to the originating country in assembled form. In the example of a truck, the goods imported to the assembling country would be components and classified as such in the trade in goods statistics. The final truck would be classified and described quite differently in the trade statistics, and the assembling country would want to show a production structure in the Supply and Use Tables whereby labour, capital and intermediate products are combined in the production of trucks. In this case, it seems more appropriate to continue to impute a change of ownership (need to distinguish economic ownership versus legal ownership) in the components and assembled trucks. If the only criterion applied is change of ownership, then we would be in danger of reducing the manufacturing process as historically recognised into a manufacturing service, with only labour and capital inputs recognised in the creation of the finished trucks, i.e. the loss of the production function. The truck would be considered to be produced in the country of the principal, benefiting from a service provided by the second country which actually manufactures the truck from components.

By not valuing the export of parts and imports of the assembled product separately, implies you cannot balance the products meaningfully. It is also worth noting that an assembly service is an industrial service and constitutes manufacturing output - some people have missed this point.

- The section on **SAMs does not fit well in this chapter**. It should either be moved to the chapter on Satellite Accounts (which includes other matrix-type constructions) or given its importance, a dedicated chapter on its own.

Some other "new" specific comments:

- Paragraph 28.14: The assumption that all margins are supplied by non-residents is not correct.
- Tables 28.1, 28.2 and 28.3 should be shown with the off-sets in the transport and insurance products, such that they should sum to zero. The tables should show the other product headings thereby showing a complete picture.
- Table 28.5 would benefit from having separate columns for goods and services – current presentation is confusing and misleading.
- Paragraph 28.37: In the table structure, there will be columns except that they will be empty (or merged with another industry) otherwise parts of the industrial classification categories will be missed out.

Chapter 29: Satellite accounts and other extensions

Some of the detailed comments (these are factual and not subjective) provided by the UK as feedback to the draft chapter have not been incorporated, this needs to be addressed.

Other areas to be considered:

- List covering a variety satellite accounts and other extensions worth mentioning which have a great deal of user interest, should also be included, for example:

- Research and development (this is very important given the changes proposed in SNA 2008 to capitalising R&D etc.).
- Unfunded government pensions (this is a very important and sensitive satellite table).
- Agriculture accounts.
- Sport.
- Culture.
- Creative Sector.
- ICT and Innovation Accounts.
- Productivity and growth accounts.

The above list is not meant to be an exhaustive list. The text should recognise them, and at least provide references to other sources for further information, and this will provide a better and more rounded picture for the chapter.

- Page 137, Section 8 and Paragraph 29.84. For completeness, the title "Physical data" and the corresponding reference in the first sentence of the paragraph immediately below should be amended to read "Physical data and units of energy". Units of energy such as tonnes of oil equivalent and terrawatt hours are common units used in areas such as material flows and energy accounts. It is not right to label these all under the title "physical data" which implies solid substance.

- Page 141, Paragraph 29.109, the table reference is missing, i.e. Table 29.2, likewise with Paragraph 29.115 which should read Table 29.3

Annex 3: Changes from the 1993 System of National Accounts

This is a very useful chapter.

At the end of the introduction, it would useful to have a full list of the changes in a single table appearing on the first page. This provides at a glance the scope of the changes. In addition, an extra column in this table could be shown reflecting whether the change will have an impact on GDP or GNI.

Annex 4: Research Agenda

No comments.

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