

Market and Non-market

In the time since the Frankfurt AEG, I have spoken with various people about this topic including to André Vanoli who was one of the moving forces behind the introduction of the distinction in the SNA. He disagreed with part of my text on this which is in the lead-in to this discussion, so I am offering a revised version and a revised suggestion.

The 1979 ESA had a simple distinction between market and non-market production. Goods were treated as always being market, by convention. There was an exhaustive enumeration of which services are treated as market and which non-market.

For the 1993 SNA, we agreed to introduce the distinction between market and non-market but not a classification by enumeration. The discussion on how to divide production between market and non-market was long and tortuous but established some principles.

One was that there is no reason in principle why any activity has to be either market or non-market; conceptually any activity could be undertaken on either a market or non-market basis.

Then we agreed two determining characteristics.

The first was is the product delivered to another unit? (Confusingly though, government collective consumption is regarded as being supplied to another unit even though it is shown as being produced and consumed in the accounts for general government.)

The second criterion is whether the goods are supplied at an economically significant price (ESP).

These criteria are regarded as being strictly hierarchical.

Thus if the answer to the first question "is it supplied to another unit" is yes, we have "production for own final use".

Then we are left with goods which are supplied to other units.

If they are supplied at ES), then they are "market";

If they are supplied at non-ESP, then they are "other non-market".

This terminology gives us serious problems. One is that despite all the huffing and puffing over what is a non-market producer, in fact we do not strictly have "non-market production". Secondly the difference into three categories causes problems (for example are subsistence farmers who sell a little but not most of their production deemed to be market or non-market producers?) but doesn't actually help much.

My original intention had been to split production into four, treating government collective consumption as NOT provided to other units. But it still left us with a problem of terminology. Accepting that we treat collective consumption as being supplied to other units, I have modified my original suggestion to keep more closely to the present text but provide clarity on the demarcation between market and non-market production

My revised suggestion is the following.

Let us continue to treat collective production as provided to other units (collectively of course).

Let us change the terminology “production for own final use” to “own-account production”(more on this below)

Let us change the terminology for production provided to other units at ESP from “market production” to “marketed production”.

Let us change the terminology for production provided to other units at non-ESP from “other non-market production” to be “non-market production”.

Let us define marketed and own account production together as market production.

The rationale for treating own-account production as market is as described in the previous note.

The characteristic of this production is that the products are suitable for sale on the market and, in principle, could command an economically significant price. Some construction projects are so specific that it is impossible to say what the corresponding “market price” would be but it is clear that a producer will only undertake the work himself if he believes that there are sound commercial reasons for undertaking this activity in house rather than out-sourcing it. In short, therefore, the criterion that the price is significant for supply is met. If the cost of own account production were higher than a certain level, producers would refrain from the production. The “certain level” is determined by their own demand for the product and thus meets the second criterion for economically significant prices.

There are several benefits to this proposal which comes at the expense of a change in terminology but little change in substance.

It preserves the notion of whether products are supplied to other units as now.

It preserves the significance and intent of ESP without change.

It would give us a market/non-market split which was exhaustive.

It defines non-market production explicitly.

It would help in the allocation of households as producers and some NPIs as between market and non-market producers.

Households producing entirely or mainly on own account would be treated as market units. (Those concerned with the informal sector may wish to identify a subset where at least some produce was sold just as for some purposes they wish to exclude producers of agricultural produce.)

NPISHs would still be units supplying products to other units at non-ESP. In my view, this is what the sector is intended to cover; those units that are not part of government but who provide goods and services to households in a similar way and for similar reasons.

Are there any NPIs mainly producing on own account which would under the present SNA fall into NPISH? It is difficult to see that if they are producing on own account they are serving households and so we are back to the question of where NPIs other than NPISHs are to be allocated. By following the proposal to identify NPIs within the government and corporate sectors, it seems this problem (if it exists) can be dealt with. Units conducting research seem a possible case of interest but in general these are going to deliver their output to their parent or funding body and so not be own account producers in any case.

The proposal above is to change the terminology “production for own final use” to “production on own account”. In a purist SNA, these terms should have the same content. A unit, even an establishment, should produce either to deliver to another unit, or for own final consumption or for own capital formation. Own capital formation includes goods going into inventories and some of these may be used later as intermediate consumption of the unit concerned. Further, the recommendation that an establishment should cover only one sort of production at one location is not always feasible. There may be occasions where there is significant secondary production in an establishment, some of which is used by the establishment and some of which is sold. Transport is a case in point where many production units have their own transport facilities, sometimes charging for delivery and sometimes including the charge in the prices of other products. In the latter case, all of the transport services provided are consumed internally. However, these sorts of activities are often of analytical interest, even without going so far as to construct a satellite account where they would indeed be treated as both output and intermediate consumption of the same establishment.

It is therefore suggested that “own-account production” could in practice include some production for own intermediate consumption, if there is good analytical reason to show such production as explicitly produced and consumed within the same unit.

The following summarises the changes now proposed:

1. Production not immediately delivered to another unit is to be described as “own-account production” in place of “production for own final use”.
2. Production delivered to another unit at an ESP is to be described as “marketed production” in place of “market production”.
3. Production delivered to another unit at non-ESP is described as “non-market production” in place of “other non-market production”.
4. “Market production” is defined to cover both “marketed production” and “own-account production”.
5. In certain circumstances, “own account production” might include some production intended for intermediate consumption within the same establishment.