

# 1993 SNA Rev 1 – Preliminary draft

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*Note by the Editor*

*In response to various comments received on chapter 8, the AEG at its meeting in New York in March 2007 asked that greater elaboration be provided on the distinction between social security, social assistance and social transfers in kind.*

*The original intention was to provide a decision tree showing how all receivables of transfers and of goods and services by households should be classified. A draft of such a decision tree was circulated to the AEG for comment but the most frequent comment was that, although the sequence of decision making was welcome, portrayal in a chart did not give enough detail and more text, with examples, was required to elaborate the decision process.*

*While the decision process was satisfactory in eliminating those items that did not fall into any of the “social” categories, questions arose about exactly how in kind transfers should be allocated. The ESA95 had elaborated a distinction not present in the SNA that allocated all health expenditure to social security. There was therefore discussion about whether this allocation should be carried over to the SNA. However, on reflection the ISWGNA concluded that the split of social transfers in kind in the 1993 SNA, between social security benefits, reimbursement, other social security benefits in kind, social assistance benefits in kind and transfers of non-market goods and services was no longer of persuasive analytical interest, not least because of the different institutional arrangements from country to country. Instead it was felt that a more relevant breakdown was between the individual services produced by government and NPISHs as non-market producers and those provided to government and NPISHs by market producers and then transmitted to households. Further, it was agreed this distinction was more usefully made in the use of adjusted disposable income account, described in chapter 9, than in chapter 8.*

*In response to these considerations, revised text has been proposed for parts of chapters 8 and 9 but these are being posted on the web site for comment in the same way as the original drafts of the chapters were exposed for comment. They will be merged into the original chapter as indicated in the Add1 document at the time that the final draft version is produced reflecting consideration of all comments received.*

*Another change has been incorporated into the proposed additional text for chapter 9. The discussion on a decision tree to allocate units to appropriate sectors revealed that it is logically necessary to allow the possibility of an NPISH producing collective services. As a result, the present convention that NPISHs produce only individual services is relaxed to read that by convention they produce only individual services unless there is evidence of the production of collective services.*

*Anne Harrison*

*10 August 2007*

## Chapter 8 Add 1

*The second sentence of para 8.23 in the draft of chapter 8 dated 8/1/07 to be deleted*

*The following text is intended to replace paras 8.78 to 8.81 inclusive in the draft of chapter 8 dated 8/1/07*

### **F. Social benefits**

8.78 Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances. A distinction must be made between amounts receivable by households that are specifically intended to provide for these needs and other receivables that the household may choose to assign to meeting these needs. Similarly, a distinction must be made or some instances where goods and services are provided to employees to meet employment requirements rather than household needs. In order to clarify the situation, it is helpful to itemise some receivables by households that are not treated as social benefits.

#### **1. Receivables by households that are not social benefits**

8.79 Government may make payments to a household in respect of the production activities of the household. An example might be a payment to encourage the production of a particular agricultural crop. Such payments are treated as subsidies to the household enterprise. Less common, but conceptually possible, is if government made a payment to permit the household to acquire a fixed asset for use in production, this would be recorded as an investment grant (a capital transfer).

8.80 An employer, whether government or not, may provide an employee with equipment that is necessary for the carrying out of the labour services the employee provides. Examples are uniforms or small tools, such as scissors for hairdressers or bicycles for delivering mail. This equipment is recorded as intermediate consumption of the employing enterprise and is never recorded as being acquired by the household to which the employee belongs. The same convention applies to services provided to employees carrying out their tasks, for example the cost of hotel accommodation when travelling on business is treated as intermediate consumption of the employer and not final consumption of the employee.

8.81 When an employer makes available to the employee a good or service that the employee does use other than in the course of his employment, these goods and services are treated as the provision of wages and salaries in kind that are recorded as being in cash with corresponding expenditure by the employees on the goods and services. Examples include the provision of free housing or making a car available to the employee to use for personal purposes as well as for business. Typically the value of these goods and services will be treated as part of the employee's income for tax purposes.

8.82 Households may receive significant gifts from other households, both resident in the same economy and abroad, or may receive compensation from another unit in respect of an injury sustained or wrongful arrest, for example. Even though these payments may enable the household to improve their standard of living (as might a lottery win also) they are not treated as social benefits in the System.

Other current transfers, both those payable and receivable by households and other sectors of the economy also, are discussed in more detail in section G.

## **2. Types of social benefits**

8.83 Social benefits may be categorised in two different ways, according to the type of benefit provided or according to the scheme under which they are provided. The types of social benefit distinguished in the System are:

Pensions;

Other social benefits payable in cash (or recorded as payable in cash);

Other social benefits payable in kind.

The schemes under which social benefits are payable are:

Employment-related social insurance schemes other than social security;

Social security;

Social assistance.

### **Reimbursements**

8.84 All benefits arising from all employment-related social insurance schemes other than social security are recorded as if they are received in cash. Even if the employee does not initially pay for health treatment, for example, but simply sends the bill to his social insurance scheme for payment by them, the amount paid by the social insurance scheme is recorded as paid to the employee and the expenditure on the health service is then recorded as being undertaken by the employee. The rationale for this is that a private social insurance scheme operates simply as a financial corporation and cannot have final consumption expenditure. Some services provided by an employer that are regarded as intermediate consumption by the employer, for example a medical service at the workplace to provide assistance to someone falling ill at work or training that it is in the interests of the employer that the employee should undertake. However, general health and education provision via a social insurance scheme are part of the compensation package of the employee and not part of the intermediate consumption of the employer.

8.85 In contrast, when a payment is made by an employee or other member of a resident household for health or education benefits, for example, and these are subsequently reimbursed by government, they are not shown as part of compensation of employees but as part of the expenditure by government on health services provided to individual household members. The expenditure by government on individual services is part of government final consumption expenditure and not part of household final consumption expenditure nor of compensation of employees.

8.86 If a household is reimbursed by government for only a part of the health services provided, the part that is reimbursed is treated as government final consumption expenditure and the part that is not reimbursed by government as household final consumption expenditure. Only if the employer explicitly agrees to reimburse the part of the expenditure not reimbursed by government is it treated as part of compensation of employees.

### **Government provided social benefits**

8.87 There is a fundamental difference between government provision of benefits under social security and under social assistance although the proportion of benefits allocated to one or the other heading varies considerably from country to country depending on national institutional arrangements.

- 8.88 Social security is one form of a social insurance scheme. The beneficiary is enrolled in the scheme or participates usually by paying a contribution to the scheme or having one paid to the scheme on his behalf. The payment may be made by the employer or a family member or even in some cases by government itself (perhaps for the duration of unemployment, for instance). Because it is a scheme, there is some sort of contract between the government and the beneficiaries. In some countries this contract has a strict legal form and cannot be altered retrospectively; in others the contract is much looser and retroactive adjustments are possible. For social security schemes, the difference between the contributions receivable and the benefits payable is monitored in the context of the government budget since persistent deficits cannot be sustained for ever without intervention to raise contributions, lower benefits or both.
- 8.89 The main payment under social security in most countries is pension provision for retirees. However, others may be entitled to pensions, for example widows and the permanently disabled. Pensions are almost always paid in cash though there may be some circumstances where government housing is available free or at a reduced rate to some pensioners in which case the value of this housing benefit is treated as part of the cash payment with the same amount showing as purchase of government housing services. Other cash benefits that may be payable under social security include unemployment benefits and income during illness, for example.
- 8.90 Social assistance is distinguished from social security in that there is no mechanism to identify the beneficiaries such as the payment of contributions. Usually all members of resident households are entitled to apply for social assistance but the conditions under which it is granted are often restrictive. Frequently there is an assessment of available income in relation to the perceived needs of a household and only those households falling below a given threshold may be entitled to this type of social assistance.
- 8.91 The extent to which social assistance provides incomes to households varies extensively from country to country. In some countries, indeed, there is no social security and all provision by government of income to meet social needs is provided without contribution but this is not the general case.

#### Benefits provided in kind by government

- 8.92 The social benefits described above mainly provide cash to households that they may use indistinguishably from income coming from other sources. In those cases where the household has no discretion over the use of the benefit, for example housing or health benefits, the benefits relieve the household from having to meet these expenses out of remaining income. However, governments all over the world take on responsibility to provide households with services they can make use of but not trade for other services or exchange them with other households. These are the individual services provided by government to households either free or at prices that are not economically significant. These benefits are described as social transfers in kind. They are recorded not in the secondary distribution of income account but in the redistribution of income in kind account as described below in section H.

### 3. Social benefits recorded in the secondary distribution of income account

- 8.93 Taking the foregoing considerations into account, the social benefits recorded in the secondary distribution of income account can be structured as follows:

Social benefits payable by employment-related schemes other than social security;

Pensions;

Other social benefits (all treated as being paid in cash);

Social benefits paid by social security;

Pensions;

Other social benefits paid in cash and not reimbursed;

Social benefits paid by social assistance ;

Pensions;

Other social benefits paid in cash and not reimbursed.

*Text then resumes from existing para 8.82 until 8.170. The text suggested below is intended to replace the entire section H of the present draft. (The numbering below simply follows from the preceding for temporary reference purposes.)*

## **H. Social benefits and redistribution in kind**

- 8.94 As explained in section G, the secondary distribution of income account is concerned with how income is redistributed among sectors by means of transfers in cash or transfers that are treated as if they are in cash. However, there remains an important class of transfers that are recorded as transfers in kind. *Social transfers in kind consist of goods and services provided to households by government and NPISHs either free or at prices that are not economically significant.* These transfers are sufficiently distinctive that two separate accounts are devoted to recording them.
- 8.95 Social transfers in kind consist of final consumption expenditure undertaken by government and NPISHs on behalf of households. For this reason they are described as individual services. This is in distinction from public goods such as defence and street lighting, which the System refers to as collective services. There are two main reasons why government may choose to provide individual services to households. One is that by meeting the needs of very large sections, or even all, the population centrally there are cost efficiencies to be realised. The other is that the government can ensure that these services are available to the population at reasonable cost to households, prescribe the standards of the service to be observed and can insist that households avail themselves of the services, for example by requiring children to attend school.
- 8.96 For some analytical purposes, it is instructive to consider a measure of household consumption that includes the goods and services provided as social transfers in kind. The expanded view of consumption, though, must be matched by a similarly extended view of income since household saving is unaffected by this different perspective. In order to accommodate this different view of household income and consumption, the System introduces two accounts, one of which derives an alternative measure of income (the redistribution of income in kind account) and the other shows the alternative measure of consumption. The second is the use of adjusted disposable income account and is described in chapter 9.
- 8.97 The redistribution of income in kind account takes the balancing item of the secondary distribution of income account, disposable income, and adjusts this for the value of social transfers in kind to reach a new balancing item called adjusted disposable income. For households adjusted disposable income is higher than disposable income; for government and NPISHs it is lower.
- 8.98 In principle, social transfers in kind may be paid to non-residents. One simple example is medical care given to foreign tourists. However, just as non-resident households may benefit from social transfers in kind from the national government, so resident households may benefit from social transfers in kind paid by the government of another economy. In general these flows to non-residents will be small relative to the total level of social transfers in kind and, unless there is strong evidence to the contrary, by convention it may be assumed that the flows to non-residents are balanced by flows

from governments (and NPISHs) of other economies. Subject to this convention, it is therefore the case that total disposable income for the total economy is exactly equal to total adjustable disposable income..