

Report on the First Expert Group Meeting

on the

Structure of the **SNA**

Geneva, June 23-27, 1986

**Introduction**

1. The meeting was opened by Professor Kurabayashi, the Director of the Statistical Office. He welcomed the participants to this meeting and hoped it would be as productive as the Inter-regional Seminar in the preceding week.

The start of the first expert group meeting marked the mid-point of the process of the **SNA** review. A large number of regional and specialized discussions have taken place and the role of the expert group meetings now is to coordinate and finalize views that will be incorporated in the draft of a revised Blue Book and series of handbooks. He stressed that revisions to the **SNA** should be done in such a manner that they secured continuity of time series and did not jeopardize efforts by developing and other countries to introduce the system. As had been made clear at meetings at the Statistical Commission in 1983 and 1985, the revision should aim to clarify and update the concepts and bring the **SNA** and related economic statistics closer into line.

2. The meeting had before it two papers: one on the conceptual framework and one on the organization of the **SNA** review which would be the basis for discussion. These documents aim to summarize the discussions that had taken place to date but should not be taken as definitive statements by the Inter-Secretariat Group. It is the prerogative of this and subsequent expert group meetings to make sure that all conceptual issues relevant to the **SNA** are covered and that an agreed consensus on appropriate statements to be incorporated in the new **SNA** are reached.

### **Objectives of the SNA Review**

3. After this introduction, the meeting appointed Mr. Aukrust, an active participant in the earlier revision of the SNA, to be the chairman of this session. He suggested the meeting should first consider the objectives of the present SNA review and the role of the Blue Book and handbooks. These matters were discussed in the organizational paper, paragraphs 1 to 19 and 160 to 165, and in the conceptual framework paper, paragraphs 1 to 22.

4. **Bernardo** Ferran then introduced the summary of the conclusions from the Inter-regional Seminar on these topics. The feeling last week had been very strongly expressed that the SNA should be seen as a single coherent system that was theoretically applicable to countries in every stage of development. In practice, obviously, the degree of implementation will vary from one country to another but this is a matter of practical limitation rather than theoretical restriction. He also pointed out the variations in economic conditions between developing countries which highlighted the inappropriateness of thinking in terms of one version of the SNA for developed countries and a single alternative for developing countries. Participants from the developing countries had strongly urged that the handbooks should be published as simultaneously as possible with the Blue Book, and that a set of theoretical recommendations would be of limited usefulness to developing countries until it was accompanied by the much more practical information that would be included in the handbooks. It was recognized by the meeting that the Blue Book could not fulfill the role of an introductory textbook, but at the same time, it was felt that it would be helpful to include some description of the uses to which national accounts should be put.

5. In opening the general discussion, Peter Hill said he felt it would

be helpful if we tried to define what the SNA was. This could be viewed from three perspectives.

- 1) It is an intellectual construct which forms the system; it embodies economic ideas and principles, concepts, definitions, relationships between concepts, groupings of transactors, and classifications.
- 2) It is the description of that system at present in the 1968 Blue Book and to be incorporated in future in the new Blue Book and associated handbooks.
- 3) It is the presentation of the system in terms of data and tables. In particular these tables may be those in the UNSO questionnaire but the data presentation issue is much more general than this. It is at this point that it is clear that some countries can go further than others in the implementation of this system and that guidance may be appropriate on the priorities for which parts should be implemented in preference to others.

6. There was general agreement that this distinction was appropriate and useful in focussing attention on the distinction between theoretical and practical recommendations. It was generally agreed that the new Blue Book should contain the explanation of the conceptual system. The handbooks should contain information on how the system should be implemented in practice and discuss questions of the presentation of the data in terms of the UN questionnaire and alternative presentations. This does not mean that the new Blue Book should not contain tables but these should be aimed at elucidating the concepts rather than defining the exact terms of tables to be completed

slavishly. There was general agreement that the conceptual system could not be simplified but that there was an urgent need for clarification of the system and that the new Blue Book should be much clearer and more specific than the existing manual. The objective of simplification that the Statistical Commission endorsed will be obtained through recommendations in the handbooks where it will be made clear how subsets of the systems can be implemented using fewer resources. In general, the handbooks should serve for elaboration of parts of the system including more detailed classifications. They should give additional explanation of the concepts and the rationale behind these. They should give guidance on compilation and indicate conceptual differences with related systems.

7. There was some discussion about whether either the Blue Book or handbooks should contain priorities for countries. It was generally agreed that this would be inappropriate because the same list of priorities would not necessarily apply to all countries. At the same time, it was felt to be important that the manual should make clear that choices would have to be made about what parts of the system should be implemented and should give guidance on the sort of considerations that would determine the priorities.

8. The meeting endorsed the idea of producing the handbooks and Blue Book simultaneously but expressed concern about how far this would be practical given the resource constraints at UNSO and the limited amount of time available to produce so many handbooks. It was noted that decisions about what information should be contained in the manual and what in the handbooks took on an entirely different complexion if these were being produced simultaneously from the case where there would be a major delay in the handbooks becoming available.

### **SNA Structure**

9. Under this category, paragraphs 20 to 31 in the Organizational Review and paragraphs 23 to 32 and 40 to 56 of the Conceptual Framework paper were discussed.

### **The Core and Building Block Approach**

10. Derek Blades introduced very briefly the proposals that the Central Bureau of Statistics of the Netherlands had been proposing for some time. These proposals had been discussed extensively at meetings within Europe, most recently at the ECE meeting in March 1986. These proposals put forward the idea that the "core" of the national accounts should be a recording of the market transactions as they actually occur. This information would be supplemented by detailed accounting of all the imputations and attributions (re-routings) which were added to the system in order to reach the SNA as we presently know it. It had been argued by the Dutch that a radical approach was needed to the exposition of the system since it would have to last well into the next century and it was desirable to conceptualize a framework that had sufficient flexibility to allow developments as yet unanticipated to be articulated through the system to be incorporated in the 1990 Blue Book. This proposal had generally had rather a cool reception though it is fair to record that at the ECE meeting in March, where a more detailed working through was available, rather greater sympathy for it was expressed.

11. It became clear in the discussion that some confusion still arose due to ambiguities in the terminology. The use of the expression "core" suggested that this was some sort of kernel of the accounts or a rather small but vital section of the full set of SNA. This is not what the Dutch proposed. The core would be a very large set of accounts but designed to reflect better

micro perception and behavior rather than the view of an economist or a statistician. "Imputations" are taken to apply only to the monetary values placed on non-monetary transactions and should not be assumed to include, for example, grossing up for non-response. Monetary transactions that take place but are not measured or are measured badly are not regarded as imputations in the Dutch use of this term. Showing true imputations and attributions separately from monetary transactions was felt to be useful because then alterations in the way transactions were attributed or variations in the valuations of imputations or the impact of making additional imputations or attributions could be worked through directly in a way that could be related to the preceding definitions.

12. Many of the participants said that they welcomed the proposal to be more explicit about the imputations and attributions occurring in the system and felt that moves to show these explicitly should be welcomed because of the extra flexibility it added to the system. Mention was also made of the use of satellite accounts developed by France for showing greater detail in a particular area than is covered in the main national accounts. It was suggested that this was a way of bringing in other variables such as employment and population which also need to be analyzed in connection with economic variables.

13. The expert group therefore rejected the proposal to introduce the concept of a core to the SNA but agreed that as far as possible, imputations and attributions should be separately identified to allow alternative analyses where these might be appropriate.

#### **Presentation of the Accounts**

14. Discussion then turned to a consideration of Table 2 at paragraph 34

of the conceptual framework paper. Participants were asked whether they felt this was an improved presentation to be used either in addition to or replacement for some of the existing presentations. Though a number of detailed changes to the table were suggested, in general, the presentation was welcomed, but as an addition to the conventional matrix presentation rather than a replacement for it.

15. There was some discussion of the balancing item, "Sectoral Income," introduced between the Income Appropriation and Income Distribution account. In general, this terminology was felt to be inappropriate. One suggestion was that Indirect Taxes minus Subsidies should be shown in the Income Appropriation account leading to "Net Factor Income" as the balancing item. In the Income Distribution account, the term "Current Transfers" would then be "Other Current Transfers."

16. Questions were also raised over the treatment of taxes and, in particular, the appropriate treatment for value-added tax and indirect taxes on imports. These also would need clarification in a representation of this table.

17. The balancing item "Change in Net Worth" was felt to be inaccurately phrased since it was in fact a summary of transactions contributing to the change in net worth.

18. It was also felt that there was some confusion in the rest of the world accounts presented here and that in particular factor income to and from the rest of the world was not shown.

19. The item "Total Surplus" under the acquisition of financial assets was not felt to be a helpful introduction and should be dropped. The IMF in its government financial statistics uses overall surplus as an important

construct and this concept of total surplus does not agree with IMF usage and is felt likely to be confusing to users. It was therefore felt appropriate to stop at lending and not show a distinction between accumulation of financial assets and the finance of accumulation.

#### **GNP and GDP**

20. On Tuesday, the 24th of June, discussion turned to whether GNP should be reintroduced as a central **aggregate** in the **SNA**; in particular, the World Bank and the IMF strongly endorsed the reintroduction of GNP. In many **developing** countries, the role of factor incomes is crucially important to an understanding of the economic forces at work in the country and ignoring these by concentrating only on GDP can be extremely misleading. The general concensus of the participants was that in certain circumstances, GNP could indeed be a useful concept but they pointed out that this was always available from the components appearing in the accounts and did not of itself necessitate restoring GNP to the position it formerly held at the center of the national accounts. A number of participants felt that producing multiple "key" aggregates, for example gross national product, gross domestic product, gross and net product and valuations at market price in fact cost could simply be very confusing to the users but the Blue Book and/or handbook could show how each of these could be produced depending on the needs of particular analyses.

21. Several participants suggested that GDP at factor cost should replace GDP at market prices as the central aggregate of the system but this did not meet with universal approval and on balance the preference was to retain GDP at market prices.

22. The question of terminology was raised again in connection with the



GDP-GNP discussion. It was universally agreed that gross domestic product was a measure of product and in the sense that it was identical to value-added was also an income measure. What is presently referred to as GNP is derived by adding net factor income to GDP; it is thus properly an income concept rather than a product concept and should properly be referred to as gross national income at market prices and not gross national product at market prices. The group strongly recommended that this change in terminology should be introduced with the new Blue Book but recognized that "GNP" is widely used on a **popular** basis by many who perhaps do not understand what these initials stand for. That being so, it would be very difficult to introduce the change.

23. While accepting that GNP is properly an income measure, it was agreed that one of the extensions to the SNA that needs to be considered is the derivation of alternative income measures and in particular derivation of real national disposable income. There is a problem about the choice of a deflator to produce this but all were agreed that it is a useful concept to be introduced in the new SNA.

24. Also on terminology, it was queried whether the distinction between purchasers prices and market prices is useful and whether it should be retained in the new SNA.

#### **Consolidation and classification**

25. Jan van Tongeren then introduced Tables 3 and 4 on pages 40 to 45 of the conceptual framework paper. The main characteristic of these tables is the hierarchy that is built into them. This hierarchy can serve two purposes. At the simplest level, it is a progressive degree of detail which can indicate to developing countries the various stages of detail that can be introduced, that is they could start with the simplest one-level digit of the

hierarchy and move to two-digit as resources permit. The levels of the hierarchy under the various categories are intended to be consonant with this idea. The second purpose of introducing a hierarchy is that this may ease the harmonization between the SNA and related systems so that for example complete harmony may exist at one of the higher levels of the hierarchy but not at the lowest levels. Indeed it might be argued that harmonization at the lowest level may not be necessary or **appropriate** since the **SNA** and other systems may be concerned with different types of disaggregation at the lower levels.

26. This approach was welcomed by the participants who felt it was *very* helpful and hoped to see more elaborated tables presented for each of the subsequent specialized expert group meetings.

27. The more important implication for the tables, the group felt, concerned consolidation. In the **SNA** at present, in moving to higher levels of the hierarchy, for example in moving to general government from central and state government, it is normal practice is to consolidate the detailed data. This means that it is subsequently impossible to unconsolidate the data and to work back to a more detailed level. Many of the participants quoted occasions when this had given rise to difficulties in practice. One example is the case of interest which is frequently shown consolidated within sectors where the holdings to which the interest relate are not consolidated. There are a few occasions where unconsolidated is not helpful; the case of financial bonds was quoted. But, in general, the group strongly endorsed the idea that data should be presented unconsolidated as far as possible and that the new Blue Book should have a chapter on the rules to be adopted in accounting terms as far as consolidation is concerned.

28. Some clarification of Table 3 is felt necessary particularly in

relation to the distinction between establishments and enterprises and the fact that the first heading, presently labelled enterprises, is strictly corporate and quasi-corporate enterprises, the unincorporated enterprises still remaining within the household sector. A question was raised about where departmental enterprises would fall within this table, whether it would be in general government or corporate enterprises. There was also a question about why financial institutions were not split between public and private as non-financial enterprises had been. In general again, these tables were felt to be helpful but should be seen as an addition to, not a replacement for, the conventional matrix presentation. It was also pointed out that some of the distinctions that had been made in the Inter-regional meeting, for example, the desirability of introducing a split between formal and informal sectors was not reflected in this table as it stood. It was suggested that as with Table 2, the Inter-Secretariat Group should be asked to provide revised versions of these tables which took into account the comments made so far.

#### **The Role of Input-Output**

29. Conceptual Framework Paragraphs 33 to 34. The question in the annotated agenda was how far should input-output tables form an integral part of the SNA. Many participants felt this question to be provocative and there was emphatic endorsement that input-output is indeed integral to the system. The question that is really at issue is how far should input-output analysis be described within the Blue Book and how far should it be confined to the handbooks. It was generally agreed that the present Blue Book is unbalanced with too much analysis of input-output including the detailed algebraic derivations of the symmetric tables, but to say this was not to say that the role of input-output should be reduced. Indeed, for many countries, producing

an input-output table was the first step in producing the national accounts and therefore it could not be ignored. In the discussion that followed, the industry by commodity tables in Tables 2 and 3 of the present SNA were referred to as supply and disposition tables and the symmetric commodity-by-commodity (and **industry-by-industry**) tables were referred to as input-output. Viewed this way, there is no conflict between supply and disposition and input-output; indeed it is necessary to start with the first to reach the second. The major distinction is that the supply and disposition tables can be compiled directly from the basic information as collected whereas the input-output tables need much further manipulation. There was therefore some suggestion that it was the symmetric tables that should be removed from the Blue Book and included in the handbooks. However, this met with a considerable amount of opposition from some of the participants; it was stressed that one of the main purposes and advantages of input-output tables is in order to perform consistency checks on the data available and for this it is necessary to work with a symmetric table. The Blue Book should not suggest that simply compiling a supply and disposition table every year is sufficient to derive the macro-aggregates, but it is still necessary to use some sort of input-output information to cross-check the components.

30. While the group could reach no formal concensus, there was agreement that the input-output table was integral to the SNA, that the supply and disposition and the input-output matrix should be in the Blue Book and enough information to show they can be reconciled in order to ensure internal statistical consistency of the data in each of them. The details about how much should be included and how much not, including elaboration of terminology and that a consideration of how far a discussion of true and approximate

prices is needed in the Blue Book will be left to the special input-output expert group.

**The Reconciliation Account**

31. Conceptual Framework Paragraph 35, Organizational Review Paragraphs 73-78. Historically, the reconciliation account was introduced to explain how one moved from the flows shown in the regular SNA to the stocks information in balance sheets and, initially, it was only thought that revaluation terms would be present. However, as new considerations have arisen, particularly for example the treatment of subsoil assets, these have been covered in the reconciliation account rather than change the existing flow accounts. The question now therefore was whether some of these items should be moved back into the flow accounts; if so, there would be a question as to whether they should affect production accounts or the capital accounts.

32. There was general agreement that there should be no arbitrary decision to reduce the reconciliation account to revaluation items only. Each of the items included in the reconciliation account should be considered on its own merit in subsequent expert groups. It was pointed out that the reconciliation account could be of interest in its own right. Indeed, there was considerable support for the idea that the reconciliation account might be split into two, one part dealing with exceptional events which would cover not only the discovery and exploitation of subsoil assets but natural disasters such as floods, etc.. Other flows, many of which would be revaluation, would be in a second part of the reconciliation account.,

33. In general, the expert group was unsympathetic to the idea of incorporating changes in subsoil assets in the flow accounts and felt these should be kept in the reconciliation account. However, it was recognized that

this subject should be discussed in detail by the expert group on financial flows.

34. It was pointed out that some asymmetries have already crept into the present treatment. For example, changes in tangible assets are not included in the flow accounts but some changes in financial assets are included, for example, an agreement to cancel debt is included as a capital transfer.

35. The group was strongly of the opinion that each of the subsequent specialized expert groups should consider items falling within the reconciliation account which came within its purview. At the end, it would then be necessary to review the resulting composition of the reconciliation account and make firm decisions at that point as to how it should be presented and whether any fundamental changes should be made.

#### **Links of the SNA to Specialized Systems**

36. Organizational Review Paper Paragraphs 32 to 35. Jan van Tongeren introduced this item by saying that although much attention was paid to the reconciliation between balance of payments, GFS and the SNA, it should be recognized that there are a number of other important areas where links need to be established. These include money and banking statistics, industrial statistics, agriculture, the household sector, income distribution, employment, etc.. Sometimes the concepts were fairly close in alternative systems and the specialized systems simply provided extra detail. Sometimes the coverage was different because of problems of imputations and attributions. The aim of the work originally had been for total harmonization but as work has progressed this now looks less feasible. The main reason preventing harmonization is that the specialized systems often have different analytical objectives from those in the SNA. This has led to an alternative

procedure of specifying reconciliation between the alternative systems via bridge tables to clarify the differences for users and producers. What is suggested now is that both approaches should be combined, that unimportant conceptual differences should be removed and the essential ones clarified. The question then was at what level the harmonization can be carried out and whether any areas in the SNA can and should be changed in order to accommodate this.

37. , The group was well aware of the burdens placed on respondents in **providing** data according to alternative systems and especially the burden that this represented in developing countries where resources were extremely scarce. To this extent therefore, they endorsed the aim that total harmonization should be the goal of the exercise; however, the strength of the SNA is its comprehensiveness and, unlike the alternative specialized system, it provides a framework under which all alternative systems of economic statistics can theoretically be coordinated. It was thus felt that it would be inappropriate for the SNA to make conceptual concessions in the name of harmonization in one area that would prejudice other parts of the system. This therefore tended to the solution that it was the specialized systems that should change. It was recognized this attitude could seem unnecessarily inflexible and it was stressed that where appropriate changes could be made to the SNA but the full ramifications of these needed to be worked through and considered before they were agreed to it. It was also stressed that an attitude of flexibility within the specialized systems would bring the process closer to harmonization than reconciliation.

#### **Sectoring**

38. On Wednesday, the 25th of June, the meeting started by deciding to

postpone further consideration of the links with other statistical systems until after a discussion of sectoring. Under this heading should be considered **paragraphs** 121 to 136 in the organizational review and paragraphs 66 to 88 and 36 to 39 in the conceptual framework paper.

39. The first major point for discussion was whether dual sectoring should be retained. On the whole there was broad agreement that it was sensible to first divide all the transactors in the economy into sectors depending on institutional arrangements and then to divide them into industries depending upon their kind of activity. However, knowledge that the second division by industry was to be made would on occasion influence the decision on sectoring. In the previous SNA it had been assumed that it was the institution which would make decisions that affected the transactions but that is clearly not always so and that on occasion decisions on the production process are made either at the enterprise, the enterprise group or even the establishment level. Nevertheless, the division into institutional sectors was felt to be helpful. Further, it was felt that it would be helpful to suggest production accounts for institutional sectors. A number of participants said they felt this would be useful and have been much requested; it also would help clarify the integration between production income and outlay and capital accounts and input-output tables where the transition is made from institutional sectors to industrial classifications.

40. Having endorsed the principle of dual sectoring, the expert group recognized that there were serious difficulties in implementation at the border-lines, in particular, there were ambiguities over defining the production activities of government, private non-profit institutions and identification of quasi-corporations. Each of these were addressed in turn.



### **Production Activities of Government**

41. Government produces both commodities and government services. If the activities producing commodities are all treated as enterprises and moved to the enterprise sector, then the identity between the producers of government services and the government sector is established and dual sectoring collapses in this context. There was therefore extended discussion about whether this was a desirable outcome or not. Units such as railways and post offices which **mainly** sell their product to sectors outside government should clearly be treated as enterprises whether or not they are formally part of government. A more difficult case is the example of the public works department for government which usually produces output only or mainly for government and may or may not be reimbursed within the government accounting system but in such a way that this represents only transfer of funds between government departments rather than an in-flow of money from an alternative source. Is such a unit producing a commodity (construction) or government services? Should it be treated as a corporate construction enterprise or part of the government sector? One suggested solution was to create a new subsector into which such units would be allocated. These could then either be aggregated with true departmental enterprises and public enterprises or with government depending on user preference. Such a subdivision might also be particularly useful when the link to input-output needed to be established. An alternative suggestion was not to remove departmental enterprises from general government but to treat them all as producers of government services and then provide a table showing the commodity classification of the output of the producers of government services. It was generally agreed that the most common practice is that large important units are separated out and treated as enterprises and

smaller ones are left within government. This decision is based on a fuzziness of definition as well as ambiguities over the availability of data. It was widely recognized that this is not a satisfactory solution and that it is an area where much greater clarification and guidance is needed in the new Blue Book. Care needs to be taken with the examples quoted; for example, government printing press may seem to be an obviously "industrial" activity but changes in technology may mean an apparent recommendation that some secretarial functions should be treated as enterprise activities.

42. It was recognized that this area needed to be given much greater consideration at the expert group meeting on the government sector. It was also recommended that attention be paid to the fate of enterprises which were successively nationalized or privatized and guidance should be given as to how long runs of data should be prepared taking these events into account.

#### **Private Non-Profit Making Institutions**

43. This is another area where there was great ambiguity in both definitions and practical considerations. It was recognized that the public perception of a non-profit institution, particularly in the U.S. and other economies influenced by U.S. practice, is very different from the SNA concept.

44. There is an implicit assumption in the present SNA that private non-profit institutions are relatively small; however this may not always be so. In Japan, for example, the gross value added of PNPIs is approximately 6% of GDP and growing. The main growth is in research, development and cultural activities. In some small countries the activities can also be very big, for example, those conducted by the church, etc.. It was therefore felt that despite the obvious data problems of identifying such activities, every effort should be made to distinguish them and that conceptually the distinction

should be clarified.

45. One suggestion was to define PNPIs serving corporations, government and **households separately and** then combine them elsewhere to form a private non-profit institutions total. Some participants suggested not making the distinction between who the PNPIs served but include them all in the household sector but this was not felt to be acceptable. It was generally agreed that PNPIs serving households should be included in the household sector but the others should be included where **appropriate** with the corporate sector and with government.

#### **Quasi-Corporations**

46. This is another very difficult boundary problem. In addition, there was some discomfort with the term "quasi-corporation" but an alternative was not immediately apparent.

47. There was unanimous agreement that the legal definition of a corporation was not a satisfactory basis for making a distinction between corporate and non-corporate activities. Obviously, it should be the economic form that determines the classification and not the legal form. At a pragmatic level, several participants reported that levels of employment were sometime used to determine quasi-corporations; as a pragmatic guide, this may be acceptable. Further suggestions for the practical recognition of quasi-corporations concerned identifying them from tax records or simply accepting that those where data can be provided should be treated as enterprises and those where accounts were inextricably mixed up with household activity should not.

48. Because of the practical difficulties of identifying quasi-corporate enterprises, one suggestion was that in the name of simplification the concept

should be **dropped**. This was seen as being a good intention but undesirable in practice.

49. In all issues to deal with **quasi-corporate** enterprises, non-profit institutions and the treatment of governmental enterprises, the problems of reroutings in the accounts need to be considered explicitly and explained unambiguously.

### **Sector Terminology**

50. On Thursday, 26th of June, having considered the problems of each of the sectors in turn, the meeting returned to the question of terminology of the sectors to be distinguished in the new SNA. In the conceptual framework paper there were two alternative presentations; one was table three on page 40 and one the table in the text at paragraph 67 on page 54. Though these were in general agreement, there were some distinctions between them.

51. The table at paragraph 67 distinguishes five main sectors by distinguishing between financial and non-financial corporate enterprises. There was general agreement that this was desirable. The behavior of financial enterprises is significantly different from non-financial enterprises and in general it is easier to collect information for financial enterprises. It was, however, pointed out that there are unincorporated financial enterprises, especially in many developing countries, for example, local money lenders. This distinction should be kept in mind in the new Blue Book.

52. There was considerable discussion about whether the household sector should be subdivided to show households including enterprise activity distinguished from those without. In general, though this was thought to be desirable in theory it was accepted that it would be totally unworkable in

practice and therefore after much discussion it was agreed to keep the household sector as it presently appears in the **SNA**, that is, including both private, unincorporated enterprises and private, non-profit institutions serving households.

### **Activities and Commodities**

53. The present SNA makes the distinction between commodities and other goods and services and between industries and producers of government services and non-profit institutions. This distinction is largely driven by the need to distinguish market from non-market transactions; but it makes for very cumbersome terminology which can occasion confuse explanation of the system. There are occasions where this distinction is glossed over, for example, in input-output tables, it is usual to talk about a simple commodity by industry table although it should properly be a commodity and other goods and services by industry and producers of government services and non-profit institutions table. It was therefore suggested that the new SNA could help clarify understanding of this system by using "industries" for all activities and "commodities" for all products. The distinction presently obtained in the system could be obtained by adding the distinction between market and non-market orientation. A consequence of this simplification would be to develop all-embracing commodity and activity classifications instead of the present system whereby for example, producers of government services are an add-on to ISIC. On top of this basic distinction between industries and commodities, one could superimpose other distinctions, for example between monetary and non-monetary, between formal and informal. Indeed one could go further and do a three-way classification with industries distinguished by ISIC and the formal/informal classification. The distinctions between market and non-

market which underlay the present terminology is an important one and should be preserved; it was argued that this applied as a classification of producers and not products, for example health care produced privately and by government may be the same product but relates to a different type of industry.

**Distinguishing Public from Private**

54. It was agreed that the distinction between public and private enterprises should apply to both financial and non-financial institutions. Clear guidance needed to be given to definition of what constituted a public enterprise; the present concept of control was too vague and: one could interpret this in a variety of ways leading to either very few or very many resultant public enterprises. Again, the question of permanency of classification between public and private was raised as an issue for clarification.

55. The question was also broached of establishing the split of national and foreign-owned companies which was of particular interest in developing countries and a further split perhaps between trans-nationals and foreign-owned companies.

**General Government**

56. In the tables as presented, it was not clear where regional government fell; should it be included in local or state government? There was discussion about where social security should be included; should it be part of central or general government? There was also a suggestion that it should be referred to simply as social security and not social security funds. There also needs to be clarification of the role of supranational authorities within general government. In general, all these issues will be taken up by the expert group on the government sector.

57. Similarly, it was agreed that the appropriate breakdown within the household and rest of the world sectors would be treated in their appropriate specialized expert group meetings.

**Links with Other Systems (continued)**

58. At this point, the expert group resumed the discussion on links with other systems. Bernardo Ferran reported the conclusions from the Inter-Regional Meeting of the preceding week. These were as follows:

- 1) "There was agreement on the importance of reconciliation and harmonization of data and concepts in the **SNA** and specialized statistical systems. Bridge tables such as those linking **GFS** and BoP with SNA concepts were thought to be useful as devices for identifying differences.
- 2) There was general support for the practical implementation of the reconciliation through sequential compilation of GFS, BoP and other specialized statistics which thereafter are incorporated in the national accounts and reconciled with other national accounts data.
- 3) The SNA must remain the coordinating framework for all economic statistics. Harmonization of the concepts in SNA and specialized statistical systems should not distort either the conceptual framework of the SNA nor that of the other systems. Lack of data was not thought to be a sufficient reason for modifying the concepts of the systems to be reconciled. On the other hand, it was recognized that minor changes in either system might be helpful to simplify the correspondence between their

respective concepts. It is particularly important to harmonize at the level of the main aggregates.

- 4) Harmonization with SNA should be particularly emphasized for industrial, agricultural, employment and income distribution and household sector statistics. "

The present group wished to record their endorsement of these recommendations.

59. The burden of producing data according to different systems was noted and all participants recognized that the main benefit to be achieved from harmonization rather than reconciliation was a lightening of the burden on reporting countries. Although it will be difficult to achieve harmonization, this should be the goal of the exercise presently under way and should be kept in mind as the desired objective in each of the specialized expert group meetings. Only when harmonization was absolutely impossible should there be recourse to reconciliation.

60. It was pointed out that one cause of incompatibility between data had to do with lack of contact between the relevant compilers rather than basic inconsistencies in the systems they were implementing.

61. It should be noted that there was great determination to obtain harmonization but it was recognized there would be costs associated with it and the costs must be borne on both sides; both the SNA and the specialized systems would have to make accommodations to the goal of harmonization.

62. Harmonization was a concept that applied to definitions of transactors and transactions to the classifications of transactors and transactions. If this harmonization was achieved, it would minimize the amount of data required in order to complete the relevant parts of the SNA and related systems. Harmonization of the accounting structures would further



lead to harmonization of data presentation.

### **Production Boundary**

63. The Inter-Regional Seminar in the preceding week had suggested that no major extensions should be made to the production boundary but a short list of activities to be included was suggested. These included wood-carrying, repair and maintenance of buildings, and change on the treatment of crop-storage. It was pointed out that including the repair and maintenance of dwellings in developing countries had implications for the inclusion of do-it-yourself work in developed countries. One of the distinctions is that in developed countries, the items used in do-it-yourself work are already included in personal consumption whereas in developing countries very often the materials are provided without market cost, for example cutting bamboo, making bricks, etc.. Again, this is an area where clarification is desirable; it should be made quite clear that own account capital formation should include major repairs and not just the initial construction.

64. Reference was also made to the ILOs definition which has recently changed to now include secondary and tertiary own account production. Efforts should be made to coordinate this definition with the ILO. On other extensions to the system, it was recognized that this may not be practical but satellite accounts could take account of a wider production boundary, for example to incorporate environmental effects and accounting for leisure.

### **Transactions**

65. The concept of "transaction" is not presently defined in the SNA yet there is a need for a definition in order to isolate imputations and attributions. This was another instance where the question of language came up. It had become clear in the discussions both last week and in this meeting

that the need to have documentation in French and Spanish simultaneously with the English documentation was highly desirable, not only to help those without a command of English but also to clarify the definitions in use. Concepts which did not translate readily into other languages probably needed further clarification in English. Transaction was such a case in point. The meeting endorsed strongly the desirability of ensuring coherence between alternative language versions of the final recommendations.

66. One of the further proposed extensions to the production boundary concerned with capital consumption of government, it had been proposed to introduce this for some roads and possibly other forms of public infrastructure. It was recommended that the thorny problem of non-material investment leading to capital formation in intangible assets should be discussed by the financial flows meeting.

**Total Consumption**

67. Brian Newson introduced this topic of discussion based on paragraphs 79 to 120 of the organizational paper. He pointed out that this problem is not new; it was recognized but not tackled in the preparation of the 1968 SNA, particularly in connection with the links of the MPS. The question is now whether it should be ducked again at this review of the SNA or approached more directly. Two recent developments suggest a more direct approach; one is the need to harmonize SNA concepts with those used in ICP where something much closer to total consumption of the population is in common use. The other is the suggestions put forward by Pretre in 1981 which distinguishes consumption for households, government and private non-profit institutions divided between individual and collective consumption. There were two basic questions which needed to be answered. Is there a need for total consumption? If so, should

it be calculated inside the SNA or outside it?

68. The Pretre proposal had been well-received but there were still some minor details that needed tidying up in order to make it totally functional within the SNA. At present, therefore, all of the work had been done outside the SNA and in many ways, the temptation was to leave it so; on the other hand, participants recognized that since the new SNA would have a life length extending well into the next century, this may not be a satisfactory long-term solution and ways should be investigated of incorporating total consumption of the population within the SNA. It was recommended that a paper showing the totality of the problem should be **prepared** and discussed probably at the expert group meeting concerned with the household sector.

#### **Valuation**

69. Discussion on this topic covered paragraphs 146 to 151 in the organization review and 146 to 158 in the conceptual framework paper.

70. As time was limited, there was not extensive discussion of these points but rather a cataloguing of subjects that required more extensive discussion at subsequent meetings.

71. The problem of hyper-inflation was raised and the difficulty of measuring output in these periods and establishing gross value added as the difference between output calculated at one point in time and intermediate consumption which may have taken place much earlier and therefore under a much lower level of inflation.

72. Transfer pricing was cited as an instance where prices in actual use were unrepresentative and inappropriate for national accounts usage. It is recognized that, this problem and the problem of multiple exchange rates may be more important in the overall concept of GDP than the problems of rerouting

transactions between one sector and another.

73. Although the 1968 SNA refers to producer and purchaser prices, the expressions factor cost and market prices are still in common usage. Given the difficulty many people have had in making the transition to producer prices, the recommendation to do this should be reviewed. At the very least, a refinement of the definitions of true and approximate basic prices needs to be agreed for inclusion in the handbook. It was generally felt that purchasers prices was not a helpful distinction and should be replaced by market prices wherever it presently appeared. This would leave basic and producer prices as the alternatives for input-output tables but final demand should be expressed in terms of market prices.

**Value Added Tax**

74. This is a problem that has vexed the members of the European community for some period of time and clarification is needed on the appropriate treatment of this tax. It has suggested that the work done in the ESA might be taken as a basis for discussion but by a subsequent expert group, but it was not clear which one. The temptation was to suggest the input-output group but so many problems had been referred to this group that it was not clear they would be able to give adequate time to all of the very important problems being referred to them.

75. It was pointed out that there are similar tax regimes with deductibility in many other countries and there are some countries that have production taxes which also give rise to problematic treatment in determining appropriate prices.

76. It was suggested that this was an area where it would be appropriate to try to hire a consultant to write a paper specifically on this topic at an early point.

### **Satellite Accounts**

77. Many participants welcomed the developments that had been pioneered by the French in the use of satellite accounts and thought the use of such accounts could usefully be described in the new Blue Book. One use of satellite accounts is to look systematically at particular areas from three ways: from that of production, consumption, and financing. Reference was **made** to work being done by the ILO working on manpower statistics in satellite accounts. Andre Vanoli offered to provide a paper on what is sufficiently mature in the French experience to be included in the new Blue Book.

### **Harmonization of Basic Data Collection**

78. The discussion on the harmonization of the SNA with the alternative statistical systems concerned mainly the harmonization of concepts and definitions of transactors and transactions. There was also a question of the harmonization of data presentation but it was felt that this was perhaps a lesser consideration since the advent of large computerized databases meant that alternative presentations could be produced fairly readily. If the basic data was harmonized, this should not lead to unnecessary confusion. A consequence of this view is that harmonization could be regarded as taking place at the basic data element level; an example of the advantages this would bring was that reinvested earnings could be available in alternative systems without necessarily having the same aggregates. This argues for a bottom up way of achieving harmonization.

79. This view was not unanimously accepted by the group and a number of participants felt that the organization of the SNA should be a top down process; one should get agreement on the system and presentation and then determine what basic statistics the compilers need to produce. There was

agreement that there needs to be clear definition given to the producers of statistics but units providing information can only give figures they know. It therefore follows that it is important to define the flows and know how they are generated from the basic recording in individual accounts.

80. One of the problems with the bottom up approach is that many of the users are only familiar with key aggregates and not in the details of their contents and the relation between these. It would therefore be difficult for the users to function effectively in a system where consistency and harmonization was defined at a very detailed level.

81. It was also pointed out that the differences in institutional, social, and economic conditions in different countries was so different that it may be very difficult to establish harmonization at the very detailed level while it still remains practical to have harmonization at a rather more aggregate level. But while admitting that it may be impossible to harmonize the origins of the basic data, the handbooks can still give guidance on the best use of sources.

#### **Other Issues**

82. The group then suggested that a list of items that should be discussed at some future stage.

- 1) If production accounts and input-output are to be described in different handbooks there is a possibility that there may be inconsistency between them. This should be kept carefully in mind in preparation of the handbooks.
- 2) Treatment of capital stocks should be explained in detail with an explanation about *why* this may differ from information showing in commercial accounting balance sheets.

- 3) Social accounting matrices and multisector accounting systems need to be described.
- 4) Links to the measurement of time use need to be established.
- 5) Should employers contributions to social security be treated as an indirect tax on labor since they are now generally used to finance pensions?  
  
There needs to be a re-examination of the definition of resident units and the appropriate treatment of off-shore activities.
- 7) The depletion of natural resources needs to be re-examined.
- 8) The treatment of tourism activities possibly via satellite accounts needs to be referenced.
- 9) Banking imputation needs to be examined in its impact on both input-output tables and financial flows.

83. Reference was made again to the need to establish French and Spanish versions of papers at an early stage. A glossary that covered old and new Blue Book terminology with a parallel draft in three languages would be extremely useful.

84. Lastly, the question was raised whether the acronym SNA should be retained or changed. In many situations, this is now taken to refer to Systems Network Architecture and it was suggested that we might consider for example changing the System of National Accounts to a System of Economic Accounting.

**EXPERT GROUP MEETING ON THE SNA STRUCTURE**  
**Geneva, 23 - 27 June 1986**

Conclusions and Recommendations

A. Scope of the revision

1. The revision will not involve major changes to the present SNA.
2. A distinction should be made between the system as an abstract construct, the presentation of the system for purposes of explanation, and the system as a framework for data presentation.
3. A major objective of the revision is to clarify the Blue Book and related Handbooks to make them easier to understand by compilers and users of national accounts.
4. The objective of simplification will be achieved by providing guidance in the Handbooks on implementation of data collection and tabular presentation.

B. Blue Book (BB)

1. The BB will give a comprehensive description of the conceptual system, including definitions and classifications of transactors and transactions.
2. The system in the BB will be applicable as a common system for use by industrialised and developing countries alike. It will deal evenly with problems faced by countries at different levels of economic development.
3. The tables and accounts in the BB will be explanatory in nature, not necessarily specifying the format for national and international reporting purposes.
4. The BB will not assign priorities to particular parts of the system, but it will emphasize that countries should draw up their own priorities in the light of national circumstances.

C. Handbooks

1. As far as possible the Handbooks should be prepared in parallel with the SNA revision process with the objective of final publication simultaneously with the revised BB.
2. The Handbooks will provide additional explanation and, where appropriate, more detailed classifications in their subject areas.
3. They will give practical guidance on methods of compilation with particular reference to problems which might arise in countries at



different stages of economic and statistical development and should illustrate possible uses and priorities of compilation.

4. In general, the Handbooks will contain the same definitions and classifications as the BB. However, in special cases such as income distribution, consumption and external transactions, some variations may be necessary.

D. Core

1. The group did not accept the proposal to identify a set of core accounts excluding imputations and reroutings.
2. The imputations and reroutings in the present SNA were considered to be broadly acceptable, but so far as possible they should be separately distinguished.

E. Accounts

1. A table like Table 2 (paragraph 34 of Conceptual Framework), that is to say an overall synoptic presentation of the accounts, was felt to be a useful format for various purposes in conjunction with other presentations, especially a matrix presentation. The expert group recommended that the Secretariat prepare a paper showing alternative presentations of such a table.
2. The extra balancing items shown in Table 2 through dividing the present SNA production, income and outlay and capital finance accounts were thought to be generally useful except for total surplus. The revised set of accounts should include specific modifications in the layout of Table 2 concerning sectoral income, changes in net worth, indirect taxes, and the presentation of the rest of the world.

F. Main product and income aggregation

1. It was agreed that Gross Domestic Product at market prices should remain the central aggregate of the system.
2. The group strongly endorsed the use of the terms "Gross National Income" to replace "Gross National Product".
3. The Blue Book should contain a description on how income aggregates such as Gross National Income and Disposable Income can be derived from GDP.
4. The revised system should include income aggregates in real terms.

G. Consolidation

1. There must be a section in the Blue Book dealing with consolidation

in all the flow accounts and the balance sheets.

2. Although some consolidation is desirable, often consolidation leads to loss of useful information and in general it should be avoided.

#### H. Classification

1. The participants welcomed the principle that the classification of transactors and transactions should include a hierarchy of aggregation.
2. The details to be included in the classification should be considered by the relevant expert groups.

#### I. Input-Output

1. Input-Output tables are an integral part of the SNA. The **BB** should contain exposition of the matrices analogous to the supply and disposition of goods and services matrix and the gross output and inputs of industries matrix of the present SNA sufficient to explain how these matrices can be used to ensure consistency between output and use of commodities.
2. The full analytical assumptions of how to produce symmetrical tables from the basic data, the interpretation of coefficients and other manipulative techniques will be mainly considered in a Handbook.

#### J. Reconciliation accounts

1. The group did not favour the removal of all reconciliation items into the flow accounts. There was particularly strong opposition to the suggestion that changes in reserves of sub-soil assets should be recorded in the production or other flow accounts.
2. The Expert Group on Financial Flows and Balance Sheets should consider the contents of the Reconciliation Accounts. It should examine the desirability of dividing the present reconciliation account into two separate accounts with one of these confined to exceptional events. This latter might include, inter alia, discovery of mineral deposits, war damage, flood losses, and holding gains and losses arising from relative price movements.

#### K. Links between SNA and related systems

1. The group endorsed the importance of work on harmonization of the SNA and related systems, such as Government Finance Statistics and Balance of Payments. It noted that harmonization offers benefits both in compilation and use but will also involve some sacrifices. In this regard, the group realised that in order to achieve harmonization, changes to the SNA and to related systems may be necessary,

and there should be openness to change on all sides.

2. The expert group felt that, as far as possible, the SNA and related statistical systems should be fully harmonized with a view to reducing reporting burdens on countries. It therefore recommended that this issue be addressed in depth in meetings of the relevant expert groups and suggested that, in formulating proposals for harmonization, account be taken of the analytical uses and requirements of internal consistency of the SNA, on the one hand, and those of related statistical systems on the other.
3. The group also endorsed the need for harmonization with other classification systems for industry, agriculture, the household sector, and income distribution statistics. Further harmonized categories of employment and population need to be presented in conjunction with national accounts aggregates.

L. Statistical units and classifications

1. The principle of dual classification of institutional units into sectors and establishment-type units into industries should be retained in the revised SNA.
2. More clarity is required in the presentation of the nature of institutional units and how they are grouped into sectors, especially with regard to the borderlines between the non-financial corporate enterprise sector and the general government and household sectors.
3. The present SNA concept and treatment of quasi-corporate enterprises (though not necessarily the terminology) should be retained and clarified. The criterion for the definition of institutional units should be economic behaviour, not legal form.
4. The expert group favoured showing private non-profit institutions serving households as a sub-sector of the household sector. Identification of these PNPI should be based on economic, not legal, definition. Private non-profit institutions serving enterprises and government will continue to be allocated to their respective sectors. A suggestion to isolate them as sub-sectors therein was deemed too complicated.

M. Institutional sectors

1. It was agreed that the following should be distinguished at the first level of the institutional sector classification: "Non-Financial Corporate Enterprises", "Financial Institutions", "General Government", "Households" and the "Rest of the World".
2. The institutional sector "Non-Financial Corporate Enterprises" includes quasi-corporate enterprises.

3. "Financial Institutions" and "Non-Financial Corporate Enterprises" should be divided into public and private.
4. The institutional sector "Households" includes households containing private unincorporated enterprises that cannot be treated as quasi-corporate, and private non-profit institutions serving households.
5. The sub-sectoring of the institutional sectors will be considered by the expert group meetings on the public sector, household sector, and financial flows and balance sheets.

N. Classification of kinds of activities

1. The terminology used in the present SNA distinguishing "commodities" from "other goods and services" will be re-examined, and also the terminology distinguishing "industries" and "other producers".
2. The existing distinction between "market" and "non-market" production will remain a fundamental distinction in tables and accounts which employ a kind of activity or commodity classification.
3. There are other breakdowns which countries may wish to superimpose on the activity and commodity classifications, such as formal/informal, modern/traditional, monetary/non-monetary. Expert groups dealing with the household sector and production accounts should make specific proposals for making these, and possibly other, distinctions.

O. Production accounts for institutional sectors

1. The system should include production accounts for all institutional sectors along the lines of those in the present SNA questionnaire.

P. Links between institutional sectors and kind of activity

1. The Blue Book will show the links between the kind of activity units and institutional sectors by means of a three-dimensional matrix, in which the components of value added are cross-classified both by kind of activity of the establishment and by sector of the institutional unit.
2. It was noted that a link-matrix of this kind could most easily be completed by countries which had established a central integrated register linking producing and institutional units. The appropriate Handbooks should emphasize the importance of establishing registers of these kinds and provide guidance on their creation.

Q. Production boundary

1. There will be no fundamental change to the production boundary of the

present SNA, although the new Blue Book and Handbooks should give clarification on the scope of own-account activities to be covered in the accounts, and on the treatment of illegal activities.

R. Other matters - definitions

1. The revised Blue Book should include a formal definition of "transaction". Definitions are also needed for gross output and capital formation.
2. The Blue Book should indicate the various imputations and attributions (re-routings) that should be separately distinguished.
3. It was also noted that the revised Blue Book must provide clarifications on:

institutional units

transfer pricing

consumption subsidies

non-financial intangible assets

S. Enlarged consumption aggregate

1. The expert group felt strongly that an enlarged consumption aggregate should be introduced in the SNA.
2. It should if possible be within the main accounts.
3. It also has implications in several areas (household accounts, government accounts, ICP).
4. The group requested the secretariat to prepare a paper examining the possible alternatives and their treatment throughout the system.

T. Valuation

1. The revised SNA must be markedly more clear than the 1968 version on the relationships between different price valuations and why they are appropriate in different parts of the system.
2. The terminology for price valuations should be reviewed; in particular the present use of "purchasers' values" when applied to GDP.
3. The secretariat was invited to prepare a full paper--primarily for the input-output expert group.

U. Value Added Tax

1. The revised SNA must specify the treatment of value added tax and similar deductible taxes. The starting point could be the experience of the European Community countries.
2. The solution must be placed in the wider context of all taxes on production.
3. This problem bears on the work of many later expert groups. Given its pervasiveness, the expert group urged the secretariat to prepare a paper on the problem as soon as possible.

V. Satellite accounts

1. The Blue Book should refer to the usefulness of satellite accounts to develop further analyses of certain areas. (Tourism was mentioned as a particular example.)
2. In the timescale of the revision it may only be possible to set outline standards for a limited number of areas.
3. Mr. Vanoli (INSEE, France) undertook to prepare a paper on what seems feasible.