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A SYSTEM OF NATIONAL ACCOUNTS

(Memorandum prepared by the Secretary-General  
on the Report of the Committee of National Income Experts)

1. At its first session the Statistical Commission stressed the importance of continuing the work that the League of Nations Committee of Statistical Experts commenced in its study Measurement of National Income and the Construction of Social Accounts. In this connexion the Statistical Office of the United Nations undertook an enquiry the results of which were published in a study entitled National Income Statistics of Various Countries 1938-1947 and in a subsequent volume covering the period 1938-1948. These publications include certain material dealing with concepts, definitions and the like. At its fourth and fifth sessions, the Commission stressed the need for establishing standards to provide a uniform basis for the reporting of national income statistics, and at its sixth session allocated high priority to this work. An expert committee was therefore appointed by the Secretary-General to review the experiences of various countries and to prepare a technical report. The Committee met at Headquarters in July 1952. Its report, A System of National Accounts and Supporting Tables, which has been circulated to the members of the Statistical Commission, takes into account the work of the League of Nations, the experience of the Statistical Office of the United Nations and other international organizations, and the work of the Organisation for European Economic Co-operation in this field.<sup>1/</sup>

<sup>1/</sup> The experience acquired by the Statistical Office was made available to the Committee in a special draft report also entitled A System of National Accounts and Supporting Tables (ST/STAT/3, 8 May 1952). The proposals for a standardized system of national accounts put forward by the O.E.E.C. were already known to the Committee, since two of its members were closely associated with this work. It may here be noted that the O.E.E.C. system of accounts advanced in May 1952 is in close agreement on most points with the proposals in the Committee's report.

2. The system of national accounts and supporting tables put forward by the Experts are intended, unlike the League of Nations report and other reports, to apply to the less developed as well as to the more industrialized economies. At the present time several under-developed countries are experimenting with the national accounting approach. It appeared desirable, therefore, that any system recommended by the United Nations should take account of the needs of such countries for current economic information and at the same time make allowance for the important limitations imposed by the available statistical material and the institutional arrangements commonly found. While it is unlikely that the system of accounts of the Experts' report can be filled in completely within the next few years by under-developed countries, the entries in the system are capable of being consolidated or aggregated as required without impairing the basic definitions and concepts on which the system rests.<sup>2/</sup> For a great many countries the system as put forward may be regarded as a goal towards which to work rather than as a structure which can at once be taken over in every detail.

3. The new system of accounts will also be of benefit to the less advanced countries insofar as it provides a basis for the projected Manual of Methods for Estimating National Income, on which work has already started. Before a description of methods of measurement is possible, definitions of the underlying flows must be formulated. It is expected that the report, by providing a conceptual basis, will expedite the preparation of the Manual.

4. It will be noted that the report, A System of National Accounts and Supporting Tables, deals exclusively with economic transactions expressed in current money terms. While recognizing the importance of measures expressed in constant prices for purposes of making comparisons over time, the Committee felt that the complex problems involved in establishing constant price flows were sufficiently distinct to require separate study. In setting out the system of accounts and in defining the current money flows involved, care was taken to insure

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<sup>2/</sup> The Third Regional Conference of Statisticians of Asia and the Far East, to be held early in 1954, will be devoted to the subject of national income. Inasmuch as one of the principal topics for discussion will be the report of the Experts' Committee, the conference will provide an opportunity to obtain the views of statisticians in a number of the economically less developed countries on problems encountered in implementing the Committee's recommendations.

consistency with the definitions and classifications already adopted by the United Nations and specialized agencies in related fields of economic and financial statistics. In particular, the Committee accepted the recommendations of the International Monetary Fund for the reporting of balance of payments statistics; upon the invitation of the Committee, representatives of the Fund participated in the discussions relating to the treatment of international transactions in national accounts.

5. In addition to the six standard accounts which are described in Chapter III and which together comprise the system of accounts,<sup>3/</sup> twelve standard tables are set out in order to provide detailed supplementary information or alternative classifications. It was felt that the use of such supporting tables made for a simpler arrangement of transactions in the accounts by eliminating the need to burden the accounts unduly with details and at the same time provided for flexibility in classifying information in significant ways. The last of the twelve tables, relating to the receipts and disbursements of the rural sector, is designed for use by the less developed countries and provides in summary form a separate account of important transactions taking place in a part of the economy that is largely self-contained and in which non-monetary transactions play an important role.

6. The Statistical Office has already circulated the report of the National Income Experts to governments in order to acquaint them with the new system and to invite their comments. It is hoped that the response will be such as to enable the Statistical Office to embark in the near future upon a regular programme of data collection and publication based on the system as it now stands, or on a version modified in the light of comments that may be received from governments.<sup>4/</sup> While it is recognized that countries possessing a developed system of national accounts may wish to retain their present framework of national income statistics,

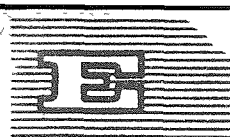
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<sup>3/</sup> The accounts set up are as follows: (1) the domestic product account, (2) the national income account, (3) the domestic capital formation account, (4) the current and capital reconciliation accounts of households and private non-profit institutions, (5) the current and capital reconciliation accounts of general government, and (6) the current and capital reconciliation accounts for external transactions. A brief description of each account is given on pages 35 to 38 of the report.

<sup>4/</sup> A summary of comments received will be submitted to the Statistical Commission at the Seventh Session.

it is suggested that these countries prepare accounts in the standard form to supplement their existing national programmes in this field. Countries not presently preparing their national income statistics in the form of a system of accounts or countries seeking a more fully integrated system than now used might adopt, as far as their statistical resources permit, the system of the Experts' report. The Statistical Office feels that a general endorsement by the Statistical Commission of the proposed system of national accounts and supporting tables and a recommendation that the framework be used in the development and reporting of national income statistics will be an important step towards improving the quality and comparability of statistics in this field. The Statistical Commission may also wish to be kept informed of the experience obtained in implementing the standards contained in the report and of comments received from governments.

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A SYSTEM OF NATIONAL ACCOUNTS

(Summary of comments received on  
"A System of National Accounts and Supporting Tables")

1. Replies from over twenty-five governments and international organizations have thus far been received commenting on the Report of the Committee of National Income Experts. The summary of comments given below is limited to the more important points raised in these replies. Because of the broad areas of agreement with the report indicated by the replies, the summary is further limited to points of difference. In a number of cases the Statistical Office was advised that the report would contribute in an important way towards raising national standards and achieving better international comparability in the field of national income statistics.
2. Various comments that were received had to do with the difficulties of providing all the information called for in the standard accounts and supporting tables. In this connexion it may be noted that it was not the expectation of the Committee of Experts that all or even most countries would be in a position to adopt the new framework in every detail for reporting their statistics. It was clearly recognized that data collection in each country should be adapted to the country's main needs, and that limitations imposed by the available data often precluded the possibility of making certain measurements. At the same time the report also recognized the inherent limitations of an accounting system such as that proposed and indicated that other types of accounts, classifications and tables would be required in particular circumstances. The object of the

Committee as stated in Chapter I was to provide a framework to extend international comparability, and to encourage countries to "try as far as possible so to arrange their work that the standard set of accounts and tables can be derived".

Differences with O.E.E.C. recommendations

3. A number of countries drew the attention of the Statistical Office to the differences between the system of accounts in question and the O.E.E.C. system, and stressed the desirability of having a uniform reporting system for international purposes. One or two countries stated, however, that the existing differences, as in the arrangement and presentation of tables and in certain definitions, were only minor considering the two systems in their entirety<sup>1/</sup>.

Applicability to under-developed countries

4. Two replies dealt briefly with the possible difficulties that under-developed countries might encounter in adopting the proposed framework for reporting purposes. The Statistical Office is aware that many under-developed countries will not be in a position for some time to complete the system of accounts. However, since the entries in the accounting system may be consolidated or aggregated into broader flows so as to simplify the accounts, simpler variants of the system consistent with the basic definitions and concepts are possible. This Office is now devising such a model for use by under-developed countries unable to complete the fuller system of accounts. Another country raised the related but more general question regarding the desirability of attempting to obtain comparability in the reporting of national income statistics by the use of a standard framework, and stated that, given the differences in available statistical material and in economic structure, the pressing of figures into a mould would achieve comparability of only a superficial sort.

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<sup>1/</sup> The Secretary-General in selecting the Committee of Experts attempted from the beginning to minimize possible differences by including in its composition two experts who had been closely associated with the work done in this field by the O.E.E.C.

Type of accounts used

5. Two or three countries, while agreeing with the basic structure of the accounting system, raised points regarding one or more of the accounts set up. One country suggested that current and capital accounts for productive enterprises should be shown, and another doubted the desirability of showing sector capital accounts. The particular form of the capital reconciliation accounts was also questioned.

The supporting tables

6. One country felt that certain of the supporting tables were unnecessary and merely repeated in slightly different form the contents of an account. Another country suggested adding a table or account reconciling the system used with the O.E.E.C. accounts. Still another objected to the conception of a rural sector in connexion with one of the tables and stated that better international comparability would be achieved by substituting the agricultural sector. The desirability of adding an input-output table consistent with the accounts was also mentioned.

Capital transfers

7. Three or four countries drew attention to the particular concept of domestic capital transfers used and the convention adopted of treating all international donations as international capital transfers. With respect to the former, it was pointed out that the notion was rather obscure and difficult to grasp. As to the classification of all international transfers as capital transfers, it was stated that while the classification of certain unilateral transactions as capital transfers as in the O.E.E.C. system might be justified, the reasons for classifying all international transfers without distinction as capital transfers were not clear.

Government investment

8. Several replies suggested alternative definitions of gross government capital formation but the nature of the remarks indicated divergent views among the respondents. One country stated that to exclude military construction from fixed public capital formation would make comparability harder to achieve, another objected to limiting the concept to non-military construction (i.e., excluding equipment), and a third suggested that either all assets of general government

should be regarded as capital formation or else all such expenditure should in effect be treated as current. The advisability of restricting capital consumption allowances for general government to a particular class of buildings only (as is also the case with imputed rent or interest on assets of general government) was also questioned.

Capital consumption allowances

9. While no country which commented on the provisions for capital consumption took exception on principle to the concept of depreciation measured on a replacement cost basis, at least three countries pointed out the difficulties in the way of obtaining such a measure. The point was also made that, notwithstanding existing differences in national accounting conventions respecting the estimation of depreciation, comparability might actually be retarded by further adjustment to a replacement basis<sup>2/</sup>.

Financial institutions

10. Two replies stated that in view of the central importance of banking institutions it would be desirable to establish a separate sector in order to distinguish their transactions<sup>3/</sup>. Two other replies referred to the failure of the report to deal with other types of financial intermediaries such as life insurance companies.

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<sup>2/</sup> In this connexion it may be noted that in the report Concepts and Definitions of Capital Formation, the problems of defining and measuring depreciation are examined at some length and provision is made for the use both of an accounting concept which will reflect the results of business decisions and an economic concept. This position is consistent with the recommendations of the Committee of National Income Experts although in the former the emphasis is placed on the accounting notion. Provided that countries able to prepare both types of depreciation estimates do so or show the adjustment required to derive one from the other (as is often done in respect of the value of inventory charge) maximum international comparability will be achieved.

<sup>3/</sup> The report recognizes the desirability of a separation of the accounts of the money and banking system for the analysis of financial problems in many countries. No objection would be made to following this procedure provided that the financial accounts can be integrated into the standard framework. Neither does the report preclude other variations that might be required for important domestic purposes.