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STATISTICS OF CAPITAL FORMATION

(Memorandum prepared by the Secretary-General)

1. The Statistical Commission at its seventh session discussed the memorandum "Concepts and Definitions of Capital Formation" (E/CN.3/146) and decided that with a few modifications the proposed concepts and definitions could serve a useful purpose. The Commission therefore recommended that countries should adopt the proposals so far as possible, and requested the Secretary-General:
(1) to circulate the memorandum and to draw the attention of member governments to the Commission's recommendations; (2) to collect information and to report to the Commission on the experience of countries in applying the concepts and definitions; and (3) to complete the study on methods of estimating capital formation and to report to the Commission at a later session.
2. In preparing the memorandum for publication, the Secretary-General took into account the observations made at the seventh session relating to the desirability of eliminating differences between the memorandum in question and the report, "A System of National Accounts and Supporting Tables" and the need for certain other changes. The sections dealing with the treatment of capital consumption allowances, government expenditures on equipment, military expenditures, government stocks, tool and minor equipment, etc. were accordingly modified, and changes were made in the sequence and presentation of various parts of the memorandum. The revised study has been published and circulated as "Studies in Methods, Statistical Papers, Series F No. 3".

3. In order to carry out the request of the Statistical Commission that information be collected on the experience of countries in applying the concepts and definitions, a summary of the recommendations relating to the concept of gross capital formations was circulated in the second quarter of 1953 to approximately twenty-five countries preparing estimates of this aggregate, and information was requested as to prevailing differences in definitions and the adjustments required to achieve comparability with the recommended concepts. The replies indicated that to the extent that significant differences in the definitions existed, these could in most instances be explained by practical difficulties of measurement rather than by basic differences in the point of view. In general, the difficulties in compiling estimates of gross capital formation which lead to the adoption of alternative definitions are limited to a few areas, e.g., the distinction between capital and current expenditures (especially in the case of minor equipment and hand tools, and the treatment of maintenance and repairs), the estimation of inventory changes and of inventory valuation adjustments, the measurement of flows of used assets, and the measurement of capital formation of general government and public enterprises. These replies will be of considerable value both in enabling the Secretary-General to interpret properly the figures available and in providing information on methods currently being used in compiling the estimates. It is expected that further details for certain countries will become available in due course as information is collected on the experience in applying the system of standardized accounts and supporting tables.

4. In regard to the study of methods of estimating capital formation, the Secretary-General plans to cover the subject in the manual on methods of estimating national income. Because of the inter-relations existing between

capital formation and other components of the national accounts, it is desirable to carry out the study on methods of capital formation estimation in the broader context of the manual, which is now in preparation. In the process of describing differences in methodology, the significant differences in concepts, sources and classification resulting in incomparability of capital formation statistics, as well as of other components, will be systematically surveyed.
