PROGRESS REPORT ON CLASSIFICATION OF GOVERNMENT ACCOUNTS

(Memorandum prepared by the Secretary-General)

1. At its eighth session the Statistical Commission took note of the work being carried on by the Fiscal and Financial Branch of the Bureau of Economic Affairs in the preparation of A Manual for the Classification of Government Accounts. The Commission recognized that the Manual was primarily for the information and guidance of under-developed countries and noted especially the many connexions between government accounts, on the one hand, and national accounts on the other. The Commission therefore felt that it would be desirable that the Secretary-General submit the draft Manual for comments to the national statistical offices as well as to national fiscal authorities. The Commission also requested that the Secretary-General submit a report on this subject to the next session of the Statistical Commission.

2. The Manual is intended to serve as a guide in the reclassification of government transactions with a view to providing data required for programming for economic stability and development. It is, therefore, concerned with the construction of what might be called "policy accounts" in contrast to the traditional "accountability accounts" which are generally maintained in accordance with existing rules and provisions of budgetary control.

3. A mimeographed draft of the Manual was completed in July 1954. This draft includes, first, a general discussion of government transactions and of the purposes and concepts of various classification patterns and, secondly, a presentation and discussion of classification schemes by economic and functional
categories. For practical reasons, the draft is limited to general government agencies and public enterprises at the central level. Attention is drawn, however, to the need for applying a uniform system of classification to all levels of government in a given country.

4. Classification schemes by economic categories are established for the central general government, social insurance agencies, production and trading enterprises and financial institutions. The concepts applied are largely derived from national accounting. Especially in the case of the central general government, the various classification problems are discussed in great detail in order to increase the practical usefulness of the draft Manual for the government agencies concerned with such problems. It is emphasized that the solutions proposed and the details shown may not be universally applicable. In several instances alternative solutions are indicated in the text.

5. On the basis of the economic classification schemes summary statements are prepared on the capital formation and the borrowing and lending operations of the central government sector as a whole. These statements are constructed with a view to indicating the economic relationships between the major divisions of the central government sector and between this sector and the rest of the economy.

6. The application of the functional classification scheme of the Manual is illustrated in the case of the central general government. Gross expenditures are divided into major functional categories, such as education, health and defence and, within each of these categories, into sub-categories such as primary education, secondary education, etc. The presentation of the scheme is accompanied by the discussion of a two-way table which shows gross expenditures sub-divided by major economic and functional categories. Moreover, it is noted that a functional classification of certain fees and other charges for goods and services will be of considerable interest in that it will result in a two-way classification of the net amounts spent by governments on various public services.

7. The use of the two-way classification is further illustrated in a chapter on the classification of expenditure for economic development. The term "development expenditure" is defined to include not only expenditures on capital formation, but
also outlays on certain current government services, such as education and health, which tend to increase the productivity of the economy. It is pointed out, however, that this term does not lend itself to a precise definition and that the chapter serves illustrative purposes only.

8. The 1954 draft of the Manual was used as a reference document at the meeting of the Working Party of Experts on Financial Aspects of Economic Development Programmes in Asia and the Far East, held in Bangkok in October 1954. From the classification schemes of the draft Manual was derived a paper entitled \textit{Economic Concepts of Budget Deficits} which was among those discussed at the meeting. Also based on the draft Manual was the discussion of a minimum programme of public finance statistics contained in the paper \textit{Classification of Government Transactions by Economic Character and Function}, prepared by the Secretary-General as a working document for the Third Inter-American Statistical Congress held in Rio de Janeiro in June 1955.

9. A revision of the 1954 draft was initiated in 1955 with a view to achieving greater uniformity between the concepts and classifications developed in the Manual and the corresponding standards proposed in the report \textit{A System of National Accounts and Supporting Tables} (Studies in Methods, Series F, No. 2). In consultation with the Statistical Office particular attention has been given to the general need for consistency at the many points of connexion between the two systems. Necessary deviations from the standards set in the system of national accounts are indicated throughout the text of the Manual. The presentation of the revised schemes is accompanied by a reconciliation table setting forth in detail the relationship with the accounts of the general government sector in \textit{A System of National Accounts and Supporting Tables}. The revision also includes an expanded discussion of the problems involved in the establishment of current and capital accounts and of the choice between savings and net changes in assets as balancing items on the current account.

10. The revised classification schemes were presented at a Workshop on Problems of Budget Reclassification in Asia and the Far East which was held in Bangkok in September 1955 as part of the United Nations Technical Assistance Programme. The Workshop was attended by budget officials and statisticians from most countries
of South and South East Asia as well as from other countries closely associated with the work of the Economic Commission for Asia and the Far East. The Report of the Workshop presents a minimum system of economic classification as a basis for experiment by the member governments of the Commission.

11. The Secretary-General expects to complete the revised version of the Manual in 1956. This version, which will take into account the results of the Bangkok Workshop, will be circulated to member governments for their comments. In accordance with the views expressed by the Statistical Commission, arrangements will be made to obtain the comments of national statistical offices as well as of national fiscal authorities. The Statistical Commission may wish to suggest that a progress report be prepared for its next session which will include a summary of the comments received from governments and interested international organizations.

12. As indicated in paragraph 2 above, the Manual aims primarily at providing guidance to government officials entrusted with the task of reclassification. In the light of the comments received from governments, it may be possible at a later stage to formulate standard classifications by economic and functional categories. These standard classifications may also be used to formulate a simplified system of accounts for international reporting. It is hoped that in this way the Manual will not only be of assistance to governments desiring to improve the data on their transactions for policy purposes, but also result in greater comparability of the data needed by various international organizations.