UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

Distr.
GENERAL

E/CN.3/229
17 March 1958

ORIGINAL: ENGLISH

STATISTICAL COMMISSION
Tenth session
Items 8 (a) and 9 (b) of the provisional agenda

PROPOSALS FOR REVISION OF "A SYSTEM OF NATIONAL ACCOUNTS AND SUPPORTING TABLES" AND "CONCEPTS AND DEFINITIONS OF CAPITAL FORMATION"

A Summary of Comments on Document E/CN.3/L.44

(Memorandum prepared by the Secretary-General)

1. In resolution 10 (IX) the Commission requested the Secretary-General

"(1) to formulate specific proposals for the amendment of the existing text of A System of National Accounts and Supporting Tables,

(2) to circulate these proposals for comments to the Government of Member States, and

(3) to report to the Commission at its 10th session."

In resolution 12 (IX) the Commission made a similar request with respect to proposals for the amendment of the related report Concepts and Definitions of Capital Formation. To maintain consistency between the two reports the Commission recommended that this work of revision should be closely co-ordinated.

2. In pursuance of these resolutions the Secretariat prepared and circulated to countries document E/CN.3/L.44 containing a number of specific proposals for the amendment of the two reports, together with an outline of other changes contemplated in their revision. Countries were invited to comment generally on this document. The present paper summarizes the comments received up to 10 March 1958 and on the basis of this appraisal submits for the Commission's consideration a number of final recommendations on this work.

58-06029

/...

3. The draft proposals of document E/CN.3/L.44 were designed, in accordance with the request of the Commission, to extend only to minor modifications of the existing concepts. Most of them were formulated jointly with the secretariats of the International Monetary Fund and the Organization for European Economic Cooperation and were discussed at some length in the tripartite meetings held in New York in January 1956. A report on these meetings was circulated to Governments later that year. Earlier discussion of many of them took place at the OEEC National Accounts Conference held in Paris in 1955 and at the various meetings of related working groups of the Conference of European Statisticians.

4. Despite the extensive history of these proposals a number of countries have indicated that they found difficulty in evaluating their full impact on the conceptual framework of the two reports. Some replies, in commenting on the various proposals, have clearly reflected the mis-interpretation of existing recommendations. Both circumstances confirm numerous earlier observations that the two reports, especially A System of National Accounts and Supporting Tables adopted an approach which was too highly refined for their immediate purposes and which consequently discouraged their application to the problems they were intended to resolve.

5. To improve this situation the Secretariat proposes that a National Accounts Manual be compiled as a supplement to A System of National Accounts and Supporting Tables (SNA). This manual would be closely related to the latter report and would consist essentially of a detailed commentary on its recommendations. The emphasis would be primarily exegetic and would be directed to the provision of guidance in those marginal cases where the application of existing principles had most frequently encountered difficulty. Special attention would be given to the problem of applying these principles in under-developed countries and to examining directions in which the system of accounts might be simplified or modified for particular purposes. The manual would replace in this connexion the appendix to SNA projected in document E/CN.3/L.44.

/...

COMMENTS ON SPECIFIC PROPOSALS

I. Concept of domestic product

6. Preference was generally expressed for the definition of domestic product given in paragraph 10 of E/CN.3/L.44. Definition as the aggregate product of resident producers of the given country, it was noted, would maintain conceptual identity with the existing definition and at the same time introduce a minimum number of changes in the text of SNA. The Secretariat recommends that this definition be considered the basic definition and that the definition in paragraph 9 in terms of factor services rendered to residents be introduced as its conceptual equivalent. In this connexion a number of comments noted the advantages of defining the concepts of domestic and national product in similar terms.

7. A number of objections to the definition in paragraph 10 were based on a misconception of the meaning of "producer". This term is defined in SNA as equivalent to "production unit" (enterprise, household or government agency) and not to "supplier of a factor service". The concept of resident, which also appears in the above definition, is defined in the manner adopted by the International Monetary Fund and is discussed at length in the Balance of Payments Manual.

8. For expository purposes it was thought useful to introduce into the text of SNA a reference to the concept of "territorial" or "geographical" product. It was not intended to introduce this aggregate explicitly into the system of accounts. A number of countries considered the introduction of a textual reference to this concept a helpful modification. Some have, however, indicated their preference for this concept over the "domestic" concept as defined above.

9. Canada, for example, stated that it had been found most useful to identify domestic product with value added by establishments located within Canada. This geographical aggregate was the only major aggregate in addition to gross national product and national income which it had been found necessary to introduce into the Canadian accounts. A similar view, which stressed the relatively precise nature of the geographical definition, was taken by Yugoslavia.

10. In this connexion attention was drawn to an inconsistency in the use of the term "domestic" as applied, on the one hand, in the expression "domestic product"

/...

and, on the other hand, in the expressions "domestic fixed capital formation" and "domestic market". In the latter usage it is equivalent to "territorial" while in the former it refers to "residents". As noted in paragraphs 12 and 14 below the Secretariat intends to eliminate this inconsistency.

II. Private consumption expenditure in the domestic market

11. There was general agreement with this proposal, although the International Monetary Fund questioned the propriety of including in the sub-total the value of gifts in kind sent abroad (net). The Economic Commission for Europe welcomed the introduction of this aggregate as particularly important for short-term statistics on private consumption.

12. The Secretariat, in recommending the adoption of the proposal in its original form, suggests that the terminology be changed to meet the objection raised in paragraph 10 above by replacing the words "in the domestic market" by "within the country".

III. Concept of domestic fixed capital formation

13. There was general agreement on this proposal. The Economic Commission for Europe suggested that the recommendation be extended to include the construction of buildings for supra-national organizations. Yugoslavia, while accepting the proposed treatment as consistent with its own preference for the territorial definition of product, suggested that the resident definition of product should imply a corresponding definition of capital formation.

14. The Secretariat recommends the adoption of this proposal in its original form together with the above extension, and suggests that the terminology be changed to meet the objection raised in paragraph 10 by replacing the term "domestic" by "territorial".

IV. Internationally operated enterprises

15. There were no objections to this proposal.

/...

V. Foreign commercial agencies

16. There were no objections to this proposal. India noted with approval that this proposal would reduce further the divergence between domestic and territorial concepts.

17. The International Monetary Fund suggested that the proposal might be further defined by adding at the end of paragrph 14 the sentence: "Only the agency's transactions for its own account would then be classified according to the country of its location. When it acted merely as an agent for account of a foreign principal the transaction would be classified according to the country of the principle rather than according to the country of the agency".

VI. Time charter of ships

18. There was a general consensus of agreement with this proposal. India, however, suggested that the rent paid for such charter should be considered a factor rather than a non-factor payment. In addition, the Economic Commission for Europe noted that a difficulty was involved in respect of the classification of domestic capital formation by industry of use, since in this case domestic capital was employed by a non-resident producer.

19. The Secretariat recommends the adoption of this proposal in its original form. It recognizes, however, the general difficulties involved in the treatment of hired assets and intends to clarify its position on this subject.

VII. Metropolitan administration in associated territories

20. There were no objections to this proposal.

VIII. Staff of international organizations

21. There were no objections to this proposal. The Economic Commission for Europe noted that this proposal might be extended to include all supra-national organizations and the Secretariat recommends that this extension be accepted.

IX. Locally recruited staffs of embassies, consulates, etc.

22. There were no objections to this proposal which the Secretariat recommends should be adopted. India suggested that all permanent staff of diplomatic establishments might be considered as residents of the country of location.

/...

X. Definition of enterprise

23. There was general disagreement with this proposal which the Secretariat accordingly withdraws. Both France and Yugoslavia pointed out that the contemplated definition might be interpreted to mean the exclusion of enterprises which were more or less permanently subsidized.

24. Replies from other countries including Austria, India, and New Zealand suggested that the real difficulty lay in the classification of institutions and government agencies to which neither criterion gave a solution. Further elaboration of the application of basic principles to these marginal cases was therefore desirable.

XI. Pension funds

25. There was general agreement on this proposal. A minor modification suggested was that administrative charges of funds administered by general government agencies for their own employees should remain part of general government consumption expenditure. The Secretariat recommends that this modification be introduced.

XII. Recording of direct taxes

26. There were no objections to this proposal.

XIII. Recording of dividends

27. There were no objections to this proposal. It was, however, suggested that with respect to proposals XII and XIII the application of the receivable-payable basis of recording transactions required clarification.

XIV. Classification of private consumption expenditure

28. There were no objections to this proposal. Following paragraph 25 above, the Secretariat recommends that item 12a in the revised classification should be defined to exclude administrative charges of pension funds administered by general government agencies for their own employees.

/...

29. The International Monetary Fund noted that item 12a defined financial services to exclude capital services and suggested that to justify this distinction the general treatment of financial intermediaries in the classification should be discussed at greater length.

XV. Defence transactions

30. While a number of countries associated themselves with the International Monetary Fund in favouring this proposal, there was no consensus for changing the existing recommendations. Comments on the proposal made it clear that many countries would not be in a position for security reasons to report data on transfers of military equipment and that even if this were possible the valuation of such equipment would create difficulties. The Secretariat accordingly proposes that the status quo be maintained.

XVI. Capital formation of general government

31. There were no objections to this proposal.

XVII. Work in progress in the building and heavy construction industries

32. A general preference was expressed for the existing treatment, which the Secretariat recommends should be maintained. This preference was based largely on the argument that since progress payments were normal for such work the latter did not legitimately represent, and was not recorded as, part of the increase in stocks of the producer. Ireland noted that treatment as part of fixed capital formation gave a smoother and more realistic trend to the annual figures of aggregate fixed capital formation.

XVIII. Capital formation in dwellings

33. A general preference was expressed for the existing definition, since the suggested change would increase the variability of the concept from one country to another. The Secretariat recommends that the original formulation be retained and the related definition of gross rent paid by households brought into line.

/...

XIX. <u>Recording of transactions in used assets</u>

34. There were no objections to this proposal. The recommended definition of capital formation would apply not only at the establishment level but to all industrial groupings of establishments.

XX. <u>Transactions in land</u>

35. A general preference was expressed for maintaining the present treatment in <u>Concepts and Definitions of Capital Formation</u>, that is of treating such transactions similarly to transactions in used assets. Land acquired for recreational and defence purposes would continue to be considered capital formation rather than consumption expenditure.

36. The treatment of purchases of land for recreational and defence purposes has recently been the subject of discussion by the Conference of European Statisticians and draft proposals on this subject conflicting at certain points with the existing recommendations have been circulated to Member Governments of the Conference. The Secretariat suggests therefore that no action be taken at present with regard to this question.

XXI. <u>Classification of increase in stocks</u>

37. There were no objections to this proposal.

XXII. <u>Goods and services</u>

38. There were no objections to this proposal.

XXIII. <u>Gold transactions of households</u>

39. There was no consensus on this proposal. The Secretariat recommends that no change be made pending further study.

XXIV. <u>Interest on the public debt</u>

40. No clear preference was expressed for any of the three proposals. The Secretariat recommends that no change be made pending further study.

41. The views of the International Monetary Fund on this proposal will be found in an annex to the present paper.

/...

XXV. Interest on consumers' debt

42. The comments on the preceding paragraph on proposal XXIV apply in this case also.

43. The International Monetary Fund noted that since an imputed expenditure on "financial services" was recorded for the management of consumers' debt but not for the management of general government debt the two proposals were not really analogous. In addition it was suggested that the present item should preferably be termed "interest on private consumers' debt" since general government was treated as a consumer in SNA.

XXVI. International transfers

44. There was general agreement on this proposal. The dissenting comments of the International Monetary Fund will be found in an annex to the present paper.

XXVII. Modification of capital reconciliation accounts

45. There was a consensus of agreement on this proposal. Austria, however, objected to the consolidation of capital transfers from general government to households with investment grants to unincorporated enterprises and private non-profit institutions, while the Netherlands suggested that it was inadvisable at this time to proceed with these modifications until further information was available concerning the treatment of capital transactions. An initiative to exchange international experience in this field had been made by the Working Group on Statistics of Savings of the Conference of European Statisticians in November 1957. In view of these objections the Secretariat recommends that no action be taken pending further study.

XXVIII. Undistributed profits of foreign branches and subsidiaries

46. The general view on the treatment of these profits was that undistributed profits of branches but not of subsidiaries should be credited to the parent concern. Undistributed profits of subsidiaries might usefully be recorded as memorandum items when available. The Secretariat recommends that the existing recommendation be amended accordingly.

/...

47. The main dissenting comments came from New Zealand, which supported strongly the present procedure. The principal argument was that since the decision on the division of profits rested with non-residents, the decision not to distribute profits was equivalent to an act of investment. To make a distinction between remitted and non-remitted portions of profits in the last analysis cut across the definition of residence and had the result of treating the same factor service in two ways.

CONCLUSIONS AND RECOMMENDATIONS

48. On the basis of this summary of views expressed on the draft proposals in document E/CN.3/L.44, the Commission may wish to approve the revision of A System of National Accounts and Supporting Tables and Concepts and Definitions of Capital Formation along the lines suggested in that document, including as amendments the specific proposals presented there, modified as indicated in the preceding paragraphs, with the exception of X, XV, XVII, XVIII, XX, XXIV, XXV and XXVII. An opportunity for examining the implementation of these proposals will be given to countries at the time of circulation of the draft revised texts of the two reports.

49. On most points, including those discussed in the International Monetary Fund memorandum annexed to the present paper, countries were usually content to state what their practices were. It is suggested that in such cases countries be asked specifically to give reasons for their preferences to assist the Secretariat in making firm proposals.

50. The Commission may also wish to approve the Secretariat's proposal to compile a National Accounts Manual which would develop and discuss in greater detail the recommendations of A System of National Accounts and Supporting Tables and Concepts and Definitions of Capital Formation.

51. Finally, the Commission may wish to express its views on the future development of A System of National Accounts and Suppporting Tables. While the recommendations of this report have proved of great help in encouraging and developing the current measure of international comparability in national income statistics, the value of certain features of the system of accounts presented has been called in question. This comment applies particularly to the capital

/...

reconciliation accounts and the related definition of a category of capital transfers. It has been noted that few countries in their national systems introduce this distinction within the transfer category, while from the point of view of international reporting the arbitrary nature of this distinction has resulted in confusion.

52. As an aspect of this comment it has been suggested that the recommended system of accounts might usefully be developed to take into consideration current work on sector capital accounts. Further development related to, and possibly conditional upon the development of these accounts, might lie in a more refined sector division. In this connexion New Zealand has suggested that the Secretariat should prepare a comprehensive review of sector account practices in the various countries.

53. Again with reference to the long-term revision of A System of National Accounts and Supporting Tables, Yugoslavia has stressed the need for closer study of the systems of national accounts of those countries which use the material product concept. This was urged as a preliminary step in the direction of standardizing the reporting of data within this group of countries and with a view to the ultimate reconciliation of these systems of accounts with the SNA system.

54. The International Monetary Fund has taken a particular interest in the immediate and long-term revision of SNA and has urged that before the next session of the Commission a major effort should be made to reach agreement on the treatment of transfers among the international agencies concerned. The views of the Fund are presented at length in the attached annex.

/...

Annex I

International Monetary Fund Reservations on the Treatment in E/CN.3/L.44* of Two Basic Problems

The Fund staff has serious reservations concerning the presentation of the problems of (a) consumer interest and (b) transfers in the United Nations paper (E/CN.3/L.44) covering proposals for revision of the United Nations' "System of National Accounts and Supporting Tables". On both these subjects the Fund staff believes that the presentation in the United Nations paper fails to call attention adequately to the basic issues involved and also fails to give the correct accounting in its tabular presentation in the Annex.

A. Government and Private Consumer Interest

The United Nations paper offers three alternative treatments of government and private consumer interest in the national accounts: (1) to treat such interest as a transfer; (2) to treat it as payment for a factor service; or (3) to treat it as a transfer when paid to residents and as payment for a factor service when paid to foreigners. The first two possibilities were extensively discussed by members of the United Nations-OEEC-IMF staffs in January-February 1956. The meetings were held under United Nations auspices to co-ordinate the United Nations system of National Accounts, the OEEC's Standardized System of National Accounts, and the Fund's Balance of Payments Manual. The conclusions reached were presented in a report dated 16 November 1956, copies of which have been sent to the Statistical Commission, member countries of the three organizations, and various non-member countries. The third alternative now offered by the United Nations found no place in this report, nor was it discussed in the subsequent contacts among the three organizations. So far as the Fund staff is aware, it appeared

---

* The full title of this paper (E/CN.3/L.44), which has been prepared by the Statistical Office of the United Nations for the forthcoming meeting of the Statistical Commission is "Proposals for Revision of A System of National Accounts and Supporting Tables (Studies in Methods, Series F, No.2) and Concepts and Definitions of Capital Formation (Studies in Methods, Series F, No.3)".

/...

for the first time in the draft of the present United Nations paper for the Statistical Commission (E/CN.3/L.44).

The Fund staff believes that this third alternative never should have been presented as a serious possibility. It seems logically inconsistent on the face of it. Whether the lender is a resident or a foreigner has no relevancy to the question of what service, if any, the borrowing government gets from the loan. Suppose, for example, that an American resident buys a new bond from the United States Government and subsequently sells it to a foreigner. It can hardly be contended that, while the American resident holds the security, the United States Government gets no service from the loan, but that, from the moment the security is sold to a foreigner, the loan begins providing a service to the government. The United States Government's use of the loan is in no way changed by the sale of the security. If the loan provides a service, it provides it irrespective of the residence of the lender. If the loan provides no service to the borrower, changing the residence of the lender will not make the loan serviceable.

If this third alternative is eliminated as logically untenable, we are left with the first two possibilities:*(1) to treat consumer interest throughout as a transfer, or (2) to treat it throughout as payment for a factor service. The United Nations paper (E/CN.3/L.44) undertakes to give the detailed accounting for these two treatments. The Annex to the paper presents a modified version of all six of the basic accounts used in the "System of National Accounts and Supporting Tables". These revised accounts, while a considerable improvement over the existing series, still fall short of accounting accurately for consumer interest if such interest is treated as a transfer. The items as set up provide for erroneous entries in several of the individual items, which must then be corrected in items 2.7, 2.8 and 2.9. None of these corrective items would be needed if the accounting items were set up properly in the first place. With the proper items the whole set of accounts would be easier to understand, and the difference between the service treatment of

* The report on the United Nations-OEEC-IMF staff discussions referred to above mentions a fourth alternative, viz., to treat interest payments by general government and households as referring to positive factor services rendered by their recipients cancelled by negative factor services rendered by the paying units. This alternative is not considered in the United Nations proposals, and is, therefore, not further discussed here.

/...

consumer interest and the transfer treatment of it could be neatly and clearly illustrated.

The changes required in the Annex table to accomplish this and affect primarily Accounts 4, 5, and 6 (i.e., Households, Government, and Rest of World). Appropriate changes in these three accounts will permit Account 2 (National Income) to be set up without corrective items. All four current accounts as the Fund staff would revise them to implement the transfer treatment of consumer interest are shown on pages 3 and 4.

The reason why corrective items are not needed in the tables on pages 3 and 4 is that only factor income is entered in the factor-income items that are transferred to Account 2. In Account 4, for example, item 4.9 includes only factor income from property. In the United Nations Annex, on the other hand, item 4.9 includes transfer receipts in the form of government (private consumer) interest despite the fact that the United Nations 4.10 purports to include all current transfers received by households from the general government. Similarly item 5.8 of the United Nations Annex includes transfers in the form of foreign government interest received despite the fact that the United Nations item 5.13 purports to include all current transfers from foreigners. Hence when the United Nations items 4.9 and 5.8 are carried to Account 2, which is designed to give the total factor income of the country, these transfer receipts, which never should have been in the factor-income items in the first place, have to be offset by the United Nations correction items 2.7, 2.8, and 2.9.

Using the Fund tables on pages 3 and 4, the differences between the transfer and the service treatment of consumer loans can now be stated quite succinctly:

/...

REVISION PROPOSED BY FUND STAFF IN ACCOUNTS 2, 4, 5, and 6 of E/CN.3/L.44 ANNEX
(assuming transfer treatment of government and private consumer interest)

Account 2. National Income

2.1 Compensation of employees (4.7)	2.7 Net domestic product at factor cost (1.1)
2.2 Income from unincorporated enterprises (4.8)	2.8 Net factor income from foreigners (6.2)
2.3 Income from property (4.9)	
2.4 Saving of corporations (3.3)	
2.5 Direct Taxes on corporations (5.12)	
2.6 General government income from property and entrepreneurship (5.8)	
National income	Net national product at factor cost

Account 4. Households and private non-profit institutions

Current Account

4.1 Consumption expenditure (1.5)	4.7 Compensation of employees 2.1)
4.2 Private consumer interest paid (4.10 part)	4.8 Factor income from unincorporated enterprises (2.2)
4.3 Direct taxes (5.13)	4.9 Factor income from property (2.3)
4.4 Other current transfers to govt. (5.14)	4.10 Consumer interest received (4.2, 5.2, and 6.3)
4.5 Current transfers to foreigners (6.9 part)	4.11 Other current transfers received (5.5 and 6.5)
4.6 Saving (*)	
Disposal of current receipts	Current receipts

* The cross-reference is to the "Capital Reconciliation Account" as re-number (not shown here).

/...

Account 5. General government

Current Account

5.1 Consumption expenditure (1.6)	5.8 Factor income from property and entrepreneurship (2.6)
5.2 Govt. interest paid to households (4.10 part)	5.9 Foreign govt. interest received (6.4)
5.3 Govt. interest paid to foreigners (6.8)	5.10 Other current transfers from foreigners (6.6)
5.4 Subsidies (1.4)	5.11 Indirect taxes (1.3)
5.5 Other current transfers to households (4.11 part)	5.12 Direct taxes on corporations (2.5)
5.6 Other current transfers to foreigners (6.9 part)	5.13 Direct taxes on households (4.3)
5.7 Saving (*)	5.14 Other current transfers from households (4.4)
Disposal of current revenue	Current revenue

Account 6. Rest of World

Current Account

6.1 Exports of goods and non-factor services (1.9)	6.7 Imports of goods and non-factor services (1.10)
6.2 Net factor income from foreigners (2.8)	6.8 Domestic govt. interest paid to foreigners (5.3)
6.3 Foreign govt. interest paid to households (4.10 part)	6.9 Other current transfers to foreigners (4.5 and 5.6)
6.4 Foreign govt. interest paid to domestic govt. (5.9)	6.10 Surplus (*)
6.5 Other current foreign transfers to households (4.11 part)	
6.6 Other current foreign transfers to domestic govt. (5.10)	
Current receipts	Disposal of current receipts

* See footnote on page 4.

General Note: It is assumed in the above accounts that private consumer interest paid to the domestic government or to foreigners (or received from foreigners) is negligible and can be disregarded. It is also assumed that the intermediary investment transactions of corporations are "dissolved", and hence government and private consumer interest paid to corporations is imputed to be paid to the ultimate household suppliers of the capital involved (i.e., it is entered in item 4.10). If these assumptions were changed, appropriate additional items would have to be inserted in the Accounts. For a discussion of the proper use of the term "current" in relation to transfers and totals in the above Accounts, see Section B beginning on page 7. No attempt has been made to revise the terminology on this point in the Accounts above.

(1) If consumer interest is to be treated as a transfer, the items in which it is entered (4.2, 4.10, 5.2, 5.3, 5.9, 6.3, 6.4, and 6.8) are transfer items and not factor income. None of them is carried to Account 2 (National Income) in the Fund tables.

(2) If, however, consumer interest is to be treated as factor income paid for a factor service, item 4.2 will be merged with item 4.1 (consumption expenditure); item 4.10 will be merged with item 4.9 (Factor income from property);* items 5.2 and 5.3 will be merged with item 5.1 (consumption expenditure); items 5.9 will be merged with item 5.8 (Factor income from property); and items 6.3, 6.4 and 6.8 will be merged with item 6.2 (Net factor income from foreigners).** Since each of the items with which consumer interest will be merged is carried to the national income and production account, all consumer interest (and the final factor services for which it is paid) will be included in Account 2.

In neither the transfer nor the service treatment will the correction items 2.7, 2.8, and 2.9 of the United Nations Annex be needed. Every item is correctly set up in Accounts 4, 5, and 6 in the Fund tables, and hence only factor income is carried to Account 2.

The exposition above of what the Fund staff believes to be the correct accounting procedure is, of course, completely neutral as between the transfer treatment and the service treatment of consumer interest. The Balance of Payments Manual, however, treats all investment income as paid for capital services, included in total goods and services. It would appear quite unrealistic to enter a portion of this investment income in international transfers. Such a classification could only mean that no quid pro quo was given for the interest so entered. But the debt is voluntarily incurred and the borrowing government

---

* Or with item 4.8 if the interest goes to unincorporated enterprises.

** The word "other" will also be dropped from items 4.11, 5.5, 5.6, 5.10, 6.5, 6.6 and 6.9.

/...

(or private consumer) clearly considers that the capital services it purchases are worth the interest they cost. The position that no quid pro quo is given for the interest does not appear to accord with the facts. If this position is nevertheless maintained, it is believed that it will constitute the only case in the entire national accounts in which an actual market transaction by a final buyer (involving no imputation procedure) is not treated as a purchase of goods or services. Moreover, as has been noted, the treatment of government interest payments as involving no quid pro quo would conflict with the Balance of Payments Manual.

B. "Current" and "Capital" Transfers

The Fund staff believes that the term "capital" as applied to transfers is misleading and that, even if more accurate titles were adopted, the lack of a sufficiently clear criterion for making the distinction between so-called "current" and so-called "capital" transfers renders such a distinction inadvisable in the basic tables. There are several alternatives that are capable of precise definition.

The three major divisions of the balance of payments as set up in the Balance of Payments Manual are (1) goods and services, (2) international transfers, and (3) movement of capital, including monetary gold. The third category includes all capital transactions - i.e., all changes in foreign assets and liabilities resulting from economic transactions (as distinct from mere valuation changes). The first two categories record non-capital transactions - i.e., current transactions. No part of the flow of international transfers is properly described as a capital transaction. Hence the term "capital transfers" is likely to prove misleading.

If current transactions are defined as non-capital transactions in the national accounts, and all transfers are consequently treated as current, then "savings" would become the "surplus on current account" of Households (Account 4), of General Government (Account 5), and of External Transactions (Account 6) in the United Nations System of National Accounts. This surplus would be a meaningful category that could be precisely defined on the basis of principle. Its counterpart would be "net investment".

/...

Another possibility would be to employ in the United Nations sector accounts the three major categories of the balance of payments. The first category (Goods and services) would have as its balancing item "excess of earned income over consumption" or, more briefly, "unconsumed income". The second category (Transfers) would have as its balancing item "net transfers"; and the third category (Capital Movements) would have as its balancing item "net investment".

Still a third possibility would be to combine the current and capital accounts into one, thus eliminating all balancing items. Such a combined account, however, would have among its sub-items the elements of "net goods and services", "net transfers", and "net investment", corresponding to the balancing items listed in second possibility outlined above.

Each of these three alternative treatments is based on exact definitions derived from basic principles. They are appropriate to the basic accounts (as distinct from ad hoc analytic categories). The balancing items would, however, differ from "savings" in the Household and General Government Accounts and from "Surplus of the nation on current account" in the Rest of the World Account as shown in the Annex to E/CN.3/L.44. In the first alternative suggested above, for example, the surplus on current account that would be shown for Account 6 would differ from the United Nations item 6.8 entitled "Surplus of the nation on current account" because all transfers would be treated as current, which is the way they are treated in the present Balance of Payments Manual.

The Fund staff is aware, of course, that different kinds of transfers have different effects on the spending behaviour of the recipients. Assets acquired by legacy are likely to be retained as assets by the recipient, whereas regular pension payments are likely to be spent. Yet both involve transfers (assuming the pension to be non-contractual). Similarly inter-governmental transfers may be provided for financing a deficit in the balance of payments or for home investment by the recipient rather than for home consumption. For analytic purposes it may often be desirable to distinguish these different types of transfer and deduct "net transfers for investment" from the current account balance in the basic tables. If this is done, however, terms such as "transfers for consumption" and "transfers for investment" should be employed to describe the two categories of transfers rather than the inaccurate and misleading terms "current" and "capital".

It is evident that in classifying transfers as (1) for consumption and (2) for investment, many difficult borderline questions will arise. There may even be cases in which it would appear that the donor has made the transfer for investment and the recipient has applied it to consumption (or vice versa). In such cases a quite arbitrary judgement may have to be exercised in classifying the transaction. It is because of the lack of precision in the criteria underlying this analytic classification and the large element of arbitrary judgement involved that the Fund staff is reluctant to make the distinction at all in the basic tables although, for analytic purposes, it is prepared to show sufficiently detailed sub-items in the transfer category of the balance of payments to permit those who wish to make some such distinction to do so in accordance with their own best judgement.

The Fund staff believes that before the next meeting of the Statistical Commission, a major effort should be made to reach agreement among the international agencies concerned on the treatment of transfers and on the use of the terms "current" and "capital" in the national accounts. At the moment these terms appear to be employed in the national accounts without adequate definition from the standpoint of the underlying principles involved.
