



STATISTICAL COMMISSION
Eleventh session
Item 9 (c) of the provisional agenda

PROGRESS REPORT ON NATIONAL ACCOUNTING AND ASSOCIATED TOPICS

(Report by the Secretary-General)

1. This document summarizes the progress made in national accounting and related fields since the last session of the Statistical Commission. Most of the subjects to which reference is made have been discussed by the Commission in the past. There are, however, references to two new subjects: input-output and statistical techniques for forecasting and planning. Inasmuch as input-output is the subject of a separate report (E/CN.3/266) only brief reference is made to the topic below. A separate paper (E/CN.3/265) has also been devoted to capital formation in under-developed countries, making it unnecessary to allude here to this aspect of the programme. Work on the comparison of different systems of national accounts, which has been carried on mainly under the auspices of the Conference of European Statisticians, is also dealt with elsewhere (E/CN.3/263).

Development of the System of National Accounts

2. A second edition of the report A System of National Accounts and Supporting Tables has recently been published. This somewhat revised version takes into account the views expressed by the Statistical Commission and by countries. The views of the International Monetary Fund and the Organization for European Economic Cooperation have also been taken into consideration. The basic concepts in the OEEC system of accounts are now virtually identical with those of the revised United Nations system as a result of joint efforts to remove differences.

3. The United Nations system of national accounts provides the conceptual framework for the Yearbook of National Accounts Statistics. It is gratifying to note the marked expansion in country coverage in the Yearbook over the last few years: approximately ninety countries will be represented in the forthcoming (1959) issue while the 1957 issue contained statistics for only about seventy countries. Not only are more countries now covered but the volume of information available for individual countries has increased noticeably. Furthermore, the numerous revisions to published figures suggest a gradual improvement in statistical accuracy.

4. Given the wide variability in the quality of national accounts statistics - not only among countries but also as regards the various flows in any country's system of accounts - it is highly important that conscious and steady efforts be made to improve reliability. Fortunately, the important uses to which the figures are put in many countries and the scrutiny to which the figures are subjected in economic debate help to maintain alertness in regard to the matter of accuracy. The use of doubtful or unusual concepts is now a minor aspect of the problem owing largely to the efforts of international organizations, but there is still often ample room for improvement in the methodology employed and, of course, very considerable room for improvement in the basic statistics on which the complex measurements involved ultimately depend. The Secretariat has been giving special attention to questions of methodology and other aspects of quality improvement. This has been accomplished through correspondence, seminars and conferences, studies in methods (e.g. capital formation statistics, special problems arising in under-developed countries), and technical assistance activities and so on. The Commission may wish to suggest to countries the desirability of improving their estimates further and to publish technical reports describing methods, assumptions and the like. Guidance as to what further steps the Secretariat might usefully take in the matter would also be welcomed.

5. The preparation of a manual emphasizing methods of estimation has already been recommended by the Commission. A manual along these lines was last published five years ago utilizing the information and experience available at that time (Methods of National Income Estimation, Studies in Methods, Series F, No. 8). Since then considerably more information has become available, primarily
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as a result of official published descriptions of methods and unpublished technical papers prepared for seminars and conferences. For example, the United Nations Seminar on National Accounts for Latin America which recently took place in Rio de Janeiro particularly stressed the practical aspects of national accounts work and resulted in the preparation of a large number of papers detailing the methods followed by Latin American countries. The Working Group of Experts on Capital Formation convened in Bangkok in November 1959 by the Conference of Asian Statisticians collected and analysed a considerable amount of information bearing on the preparation of capital formation statistics. Further methodological work is to be carried on in Asia. The first Conference of African Statisticians decided to establish a working party to consider a list of transactions to be included in a study of the non-monetary economy. The result of these developments should greatly facilitate the preparation of a new manual covering all aspects of the subject including not only methods and sources, but also uses of the statistics, conceptual issues, special problems regarding the production boundary and treatment of the non-monetary economy in under-developed countries, and so on.

Financial flows

6. Paragraph 61 of the Report of the Tenth Session summarized the observations of the representative of the International Monetary Fund in which he stated that there was a need to seek an integration of national income and financial statistics. In February 1959 an Expert Group on Statistics of Changes in Financial Assets and Liabilities (under the auspices of the Conference of European Statisticians) met in Geneva, having before it documents prepared by the International Monetary Fund, the Organization for European Economic Co-operation, Board of Governors of the Federal Reserve System of the United States of America and the Statistical Office of the United Nations. The discussion was largely based on the United Nations paper which contained detailed proposals for the integration of financial transactions into the United Nations System of National Accounts. The Expert Group reported (Conf. Eur. Stats./W.G.11/29), endorsing the notion of integration and setting

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out its views on sectoring of the economy, the form of accounts for each sector, the list of financial items and other topics. The Group recommended that the international organizations concerned should draft a consolidated statement, on general lines indicated, for the consideration of the full Working Group of the Conference.

7. The report of the Expert Group was considered at the Seventh Plenary Session (June 1959) of the Conference of European Statisticians in the report of which it was stated (paragraph 30 of Conf. Eur. Stats./112) that "A number of participants considered that the Working Group should be charged with the development of a system of financial accounts (including, for completeness, financial balance-sheets) and should not be concerned with the problems of relating the system to the traditional national accounts", a view which found modified expression in paragraph 31 (d) of the terms of reference proposed for the Working Group:

"while recognizing the desirability of developing an extended national accounting system which would include integrated financial and non-financial accounts, agreed that the Working Group to be convened should be concerned primarily with financial accounts suitable for detailed economic analysis."

8. The Statistical Office and the International Monetary Fund in due course issued to member countries of the Conference of European Statisticians for comment a draft of a consolidated statement. This statement took account of the criticisms of the Conference of European Statisticians in giving the draft more of a "financial" treatment than in the original United Nations document but adhered firmly to the February concept of integration, for reasons developed at some length.

9. At the Working Group meeting held in Geneva 29 February-4 March 1960, while attention was confined to financial aspects the desirability was recognized of ultimate integration of financial and non-financial accounts. The item linking the two systems is saving, the national account definition of which, however, might ultimately require modification from financial account considerations. As a working hypothesis, the Group decided to regard saving as defined in the traditional way.

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10. The Group considered the problems of sectors and financial items to be distinguished for the purpose of financial accounts. The appropriate statistical unit would be the smallest unit for which financial accounts and balance sheets are available. The basis of classification would accordingly be institutional as distinct from functional, implying that the unit would be the enterprise rather than the establishment. In principle, sectors should be selected on the bases of homogeneity in financial behaviour and in the kind of financial objects held or owed. A minimum list of sectors was suggested for international use. The main difference in the list from that proposed by the Expert Group of February 1959 is in providing (as a preferred alternative) a single sector for households and private unincorporated non-financial enterprises combined, on the practical ground that, in the present stage of development of these statistics, financial items in this sector are likely to emerge as residuals.
11. The Working Group reviewed the list of financial items proposed by the Expert Group, noting that the Expert Group had not regarded these as definitive but had suggested that certain aspects required further study. On the basis of the Expert Group list it was suggested that the item gold and foreign assets should be subclassified into (i) gold and foreign exchange and (ii) other foreign assets, that a distinction should be made between marketable and other corporate debt securities and between government obligations of long and short maturity. While the Group regarded a Scandinavian proposal of subclassifying a comparatively short list of financial objects by sectors as systematic and appropriate for a long-term programme, it considered that at present very few countries had the data to apply this system.
12. As regards valuation, the Working Group considered that in the financial transactions accounts, actual transaction values should be used. There were differences of view as regards valuation of items in the balance sheets. The Group recommended that data on either market value or both market and face value should be sought. It was recognized that the face value basis has statistical advantages. Clearly the valuation and the associated capital gain problems require further consideration.

13. The Group suggested a statistical programme on the lines of the foregoing and indicated in addition the periodicity of data for the different main sectors; for example, for central government and the monetary system monthly financial balance sheets should be provided. Capital gains should be separately specified to afford reconciliation between annual changes in balance sheets and financial transactions. A link between financial and non-financial accounts should, as a minimum, be provided by the national total of saving. In the reporting system both transactions and balance sheet data might be collected together.

14. The Statistical Commission may wish to express its views generally on these proposals and, in particular, on the kind of financial accounts required in under-developed regions. The Commission may also desire to request the Statistical Office and the International Monetary Fund to keep in close touch with developments everywhere, especially as regards analyses and methods of data collection used.

Price and quantity indexes and deflation of accounts

15. At its tenth session the Commission considered three documents dealing with this topic (E/CN.3/L.46 and 47, E/CN.3/231) and recommended that efforts be continued to collect information on statistics of national product and expenditure in constant prices and on methods, that assistance be given to countries in the preparation of such statistics, and that consultations be held with interested international organizations and experts on the proposals in the documents with a view ultimately to the preparation of a study dealing with the conceptual and statistical problems involved.

16. Since many of the problems connected with deflation are far from settled and comments from countries have been few, special efforts have been made to promote discussion of the issues at international meetings. For example, the subject was discussed at the National Accounts Seminar for Latin America using a background paper especially prepared by the Secretariat; and a staff member organized a session dealing with the subject for the Conference of the International Association for Research in Income and Wealth held in Portoroz, Yugoslavia, in August-September 1959, three papers being contributed by the Secretariat.

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17. The Seminar participants emphasized the special interest which this topic held for Latin America, where many of the countries have experienced such drastic price changes that the time trends of accounts at current prices are of only limited significance. Disapproval was expressed of the practice of calculating a constant price series for national income by dividing current price series by a retail or wholesale price index; and there was agreement as to the usefulness of making available in constant prices such components as personal consumption, capital formation and exports and imports. Attention was also devoted to measurement of the gain or loss resulting from changes in the terms of trade. At the IARIW Conference there was discussion but no agreement on the usefulness of a fully articulated system of accounts at constant prices. Much of the discussion centred on the external account, with opinion divided as to the price deflator to be used for the external surplus and thus on the definition of the trading gain.

18. The many aspects requiring further investigation before firm decisions can be reached may for convenience be grouped as below. The Commission may wish to express its views on future work on some or all of these problems:

- (i) The problem of allowing for quality changes and new products in price and quantum index number construction, having regard to capital goods in particular.
- (ii) Problems in the construction of quantum index numbers using cost data.
- (iii) Problems of the "double deflation" method (i.e. estimating added value at constant prices as the difference between gross output and non-factor input at constant prices) for individual industries.
- (iv) Desirability and practicability of an articulated balancing system of national accounts at constant prices; treatment of the external account, with the trading gain problem; trading gain in intersectoral relations, e.g. agriculture and rest of nation.
- (v) Estimation of quantum of services (government, distribution, etc.).
- (vi) Deflation of factor inputs; productivity problems at the macro-economic level.

Income distribution

19. The basic report on the subject considered by the Commission at its tenth session (E/CN.3/L.42) has been amended and brought up to date with a view to publication. Account has been taken of the Commission's request to cover also "the practice of countries which studied distributions of aggregate expenditure instead of personal income" (resolution 8 (X) 1).

20. To gain the experience necessary to give effect to parts two and three of resolution 8 (X), arrangements have been made for close collaboration with the appropriate authorities in Puerto Rico on the preparation of a set of tables on income distribution for that country. The main sources of information are social security and income tax data, but sample inquiries will also be employed to secure better coverage of the population, uniformity of the definition of income and so on. Work on these lines was recently started following a visit to Puerto Rico by a staff member.

Input-output

21. The Statistical Commission has before it a preliminary report on input-output (E/CN.3/266) marking the first occasion on which this important topic has been brought to its attention. With the immediate object of gaining experience in the conceptual and statistical problems involved in constructing input-output tables, and with the ultimate object of establishing standards, the Statistical Office has been privileged for some time past to collaborate with the Irish Central Statistics Office in the preparation of a table for Ireland. The first draft is nearing completion.
