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PROGRESS IN RELATING THE SNA AND MPS

(Report by the Secretary-General)

I. INTRODUCTION

1. This paper reports on the progress made since the thirteenth session of the Statistical Commission in defining the relationship between the System of National Accounts (SNA) and the Material Products System (MPS) and extending the common ground between the two systems. It also describes the new provisions made in each of the system for series needed in linking related concepts and the work conducted on developing common basic aggregates of special interest. Outlined as well is the proposed future work on relating the SNA and MPS, one with the other.

2. The work of relating the two systems has been conducted as part of the review of the national accounts and balances. The revision and extension of the SNA and the development of the MPS furnish the opportunity to increase the degree of coincidence between the two systems and to incorporate the subsidiary data required to pass from one system to the other where it is not feasible to define corresponding concepts and classifications in the same way. This aspect of the work of relating the two systems has therefore received the main attention during the last year and a half. In addition, groundwork has been laid for improving and simplifying the conceptual frame

and rules for comparisons between the SNA and MPS and for developing common special aggregates of basic interest. This aspect of developing links between the two systems was at the focus of attention in the earlier work of relating the SNA and MPS.^{1/} The earlier work concerned the existing SNA and MPS.

3. The efforts to bring the two systems closer together have concentrated on flows on the production and use of goods and services. This has also been the case for the establishment of links between the SNA and the MPS. Most of the other transactions of the national accounts and balances (e.g., transfers, claims) are not promising subjects of such efforts. The character, classification and treatment of these transactions reflect the marked differences in institutional arrangements between countries with centrally planned and market economies. Therefore though concepts may be co-ordinated or related formally, the correlation established is unlikely to have the same meaning economically. Nonetheless, it seems feasible to develop meaningful co-ordination in the case of some of the financial flows. These flows are discussed in this paper.

4. During the last year and a half, the bulk of the work of relating the SNA and the MPS has been carried on under the auspices of the Working Group on National Accounts and Balances of the Conference of European Statisticians. The first session of the Working Group discussed both the revised SNA and the first available comprehensive description of the MPS; and called attention to the schemes of classification and certain other aspects of the two systems where it was thought the common ground could be extended substantially.^{2/} It should be recalled that the thirteenth session of the

1/ The results of the earlier work are brought together in Rules for Conceptual Adjustments between the Systems of National Accounts and Balances in Use in Europe, Conf. Eur.Stats/WG.22/GR.1/1.

2/ A System of National Accounts (Proposals for the Revision of SNA, 1952), E/CN.3/320 and Generalized Description of the System of Balances of the National Economy, issued as Conf.Eur.Stats/WG.22/4.

Statistical Commission also considered these two documents and reached the same conclusions in respect of increasing the degree of co-ordination between the two systems. The various Groups of Rapporteurs of the Working Group identified differences in concepts and classifications between the two systems which might be eliminated, based on discussions of pertinent aspects of the revised SNA and the MPS; agreed on a classification of kind of economic activity for use in both the revised SNA and MPS and on definitions for the revised SNA which in a number of instances, increased the correlation between the two systems; and defined the direction of future work on links between the developed SNA and MPS. The second session of the Working Group considered the revised SNA and an improved and extended version of the MPS.^{3/}

5. The comprehensive information that has been made available in the course of the review of the national accounts and balances, on the concepts and definitions, classifications, balances and tables of the MPS has greatly assisted the work of bringing the two systems closer together. This is especially so in the case of the two documents, Generalized Description of the System of Balances of the National Economy and Basic Principles of The Statistical Balance of the National Economy. The numeric illustrations furnished for the main tables of the MPS have also been helpful.

II. EXTENSIONS IN THE COMMON GROUND BETWEEN THE SYSTEMS

A. Production and Intermediate Consumption

6. The co-ordination between the SNA and MPS in the series on the output of goods and services has been significantly improved in the course of the review of these systems. The attention devoted in the revised SNA to the gross output of goods and services furnishes data on a fundamental measure of production in the MPS. The extension in the scope of gross output in the revised SNA to include the processing of primary products by farmers for

^{3/} Basic Principles of The Statistical Balance of the National Economy, issued as Conf.Eur.Stats/WG.22/12.

their own consumption and the construction of roads and other facilities by self-help community groups, results in coincidence between the two systems in respect of own-account production. The essential remaining difference between the systems in the boundary of production is the restriction of the aggregate social product in the MPS to the gross output of the branches of material production.

7. The development of a common classification of kind of economic activity for the two systems, the detailed categories of which may be divided into the MPS classes of material and non-material production, provides a framework for sub-dividing gross output in this fashion in the case of the SNA.

The detailed classifications of gross output according to kind of economic activity which are called for in the supporting tables of the revised SNA, will furnish the data required for this purpose. On the side of the MPS, the table "Income and expenditure connected with the rendering of services" of Basic Principles of the Statistical Balance of the National Economy, will provide data so that coupled with the data on the branches of material production, figures of gross output in the SNA sense may be compiled. The common classification of kind of economic activity is also basic to the provision of comparable gross output of individual industries. and to increasing the correlation between the two systems in a number of other respects since this classification is used extensively in each system.

8. The steps taken to extend the common ground between the two systems in respect of gross output, also enhance the co-ordination in respect of measures of production which are more net than gross output, e.g., the gross domestic or gross material product, domestic or national incomes at market prices.

A contribution to such co-ordination is also made by the classification in one of the input-output tables of the revised SNA (Table 2, Chapter II of E/CN.3/345) of inputs of goods and services into the various industries according to industry in which they are characteristically produced. These data may be employed to calculate inputs into the industries of material production

according to the MPS concept of material inputs. If data were called for in the MPS on the inputs of purchased services into material production, inputs into these industries could then be computed according to the SNA concept. In the case of services (i.e., non-material production) such series of data are already listed in the table of the extended MPS that was mentioned above, on the income and expenditure of services.

9. Consumption of fixed capital (depreciation) of course needs to be taken into account in compiling series on domestic income. There appear to be differences in the definition of this concept between the SNA and MPS. For example, damage and destruction of fixed assets due to natural calamities are accounted for in depreciation in the SNA but in the element of final use "Replacement of losses" in the MPS. Further, while consumption of fixed capital is based on the current costs of replacement of the assets in the SNA, it appears to be based on the original cost of the assets in the MPS.

B. Gross Capital Formation

10. The modifications in the definitions of gross capital formation proposed in the revised SNA reduce the divergence between the SNA and MPS in this respect to a difference in the treatment of durable goods for military purposes. In the revised SNA, durable goods which governments acquire for military use primarily, are classed in the final consumption of general government. In the MPS, these outlays are included in gross capital formation. The proposed changes in the definitions of gross capital formation in the SNA which extend the common ground between the two systems are: Work in progress on construction is to be part of inventories instead of fixed capital formation, while livestock for breeding purposes, dairy cattle and draught animals are to be included in fixed assets rather than in inventories. Outlays on afforestation and the development of orchards, rubber plantations and other holdings of fruit-bearing and sap-bearing plants which take a long period to become productive, are to be classed as part of fixed capital formation.

C. Final Consumption

11. A number of developments in the course of the review of the national accounts and balances result in extending the common ground between the SNA and MPS in respect of flows of final consumption. The establishment in the revised SNA of a sector for private non-profit institutions serving households, apart from households, makes a significant contribution to improving the co-ordination. The classification in the revised SNA of the total outlays on final consumption by private non-profit and government institutions, including expenditure on food, tobacco, clothing, medicine, etc., according to the purpose served by the organization aligns the SNA with the MPS in this respect. The schemes of classification of the final consumption of these organizations utilized in the MPS and the SNA appear to be consistent, one with the other, though the schemes of the MPS are much less detailed than those of the revised SNA. The scope of the own-account production of households included in their final consumption is to be essentially identical in the two systems; and in the revised SNA, an imputed bank service charge is not to be included in household final consumption. The classification by object of households' goods and services in the revised SNA is designed so that it may be utilized in the MPS; outlays on goods are systematically distinguished from outlays on services.

12. Moreover, the input-output table of the revised SNA which was mentioned earlier (Table 2, Chapter II of E/CN.3/345) calls for the data needed to sub-divide the consumption of households, private non-profit institutions, general government agencies and industries not classed as contributors to material production in the MPS, into goods and non-material services in the MPS sense. These data may therefore be utilized to measure final consumption according to MPS concepts. In the case of the MPS, all the information needed to compile figures according to the SNA concepts of final consumption, does not appear to be called for in the balances and tables of Basic Principles of the Statistical Balance of the National Economy.

13. The three schemes of classification of the revised SNA utilized in respect of final consumption - households' goods and services, general government purposes and the purposes of private non-profit institutions - have been co-ordinated one with the other. These schemes may therefore be meshed for purposes of compiling data on the total consumption of the population. The total consumption of the population is considered to be a basic concept of special interest in respect of which comparable data should be available from both systems. Provision has also been made in the three classifications for supplementary data in respect of outlays on food, tobacco, clothing, medicines and the like consumed in government and private non-profit institutions or purchased in restaurants, cafés and other eating and drinking places. The supplementary data have been called for so that figures may be compiled of the total consumption of these items by the population.

D. Compensation of Employees and National Income

14. In the case of transactions of the systems of national accounts and balances other than the production and use of goods and services, the co-ordination has been improved in respect of compensation paid to employees. In the revised SNA, compensation of employees is to be sub-divided into wages and salaries, employers' contributions to social security schemes, and employers' contributions to private pension funds and similar arrangements. In the MPS, employers' contributions to social security, pension and like funds are not classed as part of wage-type income.

15. Further, the classification in the revised SNA of data on the compensation of employees according to categories of economic activity which are common to both systems, provides the means of segregating the wages and salaries which are considered part of the national income in the MPS from other wages and salaries. This division of wages and salaries, coupled with the same type of division of operating surplus and the excess of indirect taxes over subsidies, will furnish most of the data required in order to calculate national income in the MPS sense by means of the income approach. The tabulation of operating surplus and the excess of indirect taxes over subsidies according to the

classification of kind of economic activity, is also included in one of the supporting tables of the revised SNA. In the case of the MPS, most of the series required in order to compile data on national income at market prices according to the SNA definitions, appear to be called for in the balances and tables of the extended MPS.

III PLANS FOR FURTHER WORK

16. The continued work of reviewing the systems of national accounts and balances may result in some further improvements in the co-ordination between the SNA and MPS. For example, in the course of the discussions of the European Working Group on National Accounts and Balances, reference was made to the values of a distinction between current and capital transfers in the MPS and a concept of saving similar to that of the SNA. As part of the continued work of developing the systems, improved versions of the revised SNA and MPS will be prepared.

17. Much of the further work proposed on relating the SNA and MPS consists of improvements and extensions in the conceptual framework and rules for linking the two systems. The Group of Rapporteurs on SNA/MPS Links of the European Working Group on National Accounts and Balances made proposals in this respect which were later endorsed by the parent Working Group.

18. The conceptual framework and adjustment tables for passing from one system to the other, presented in document Conf.Eur.Stats/WG.22/GR.1/1, should be studied in terms of the revised SNA and the developed MPS; and any amendments and extensions required in the substance of the document should be made. It was considered that it would be valuable to add to these materials, adjustment tables on the industrial origin of the domestic product (national income) and input-output data in simplified form. It was thought that the usefulness of comparisons between the two systems of aggregates on production classified according to sector (e.g., public, private), should be explored. This work may suggest the usefulness of

developing common aggregates which are of special interest, in addition to the total consumption of the population.

19. The detailed description of the structure of the MPS in matrix form which is being drawn up, will be invaluable in the further work of relating the two systems. Such a matrix is already available in the case of the revised SNA (Table 4 in Chapter II of E/CN.3/345.) Developing standard terms for the main concepts of the revised SNA and MPS, as recommended by the Working Group on National Accounts and Balances, will also be a major contribution to understanding the relationships between the two systems. It is proposed that this work be undertaken under the auspices of the Conference of European Statisticians, after the fourteenth session of the Statistical Commission.