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NATIONAL ACCOUNTS AND BALANCES

REPORT OF THE THIRD SESSION OF THE EXPERT GROUP
ON THE REVIEW OF NATIONAL ACCOUNTS AND BALANCES

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I. INTRODUCTION

1. The third session of the Expert Group on the Review of the National Accounts and Balances met in Paris from 20 through 30 November 1967. Facilities for the meeting were kindly furnished by the Organisation for Economic Co-operation and Development.

2. The members of the Expert Group who participated in the third session were: Mr. Odd Aukrust, Central Bureau of Statistics, Norway; Mr. B. Ferrán, Central Bank of Venezuela; Mr. Earl Hicks, International Monetary Fund; Mr. J. D. Mayer, National Institute of Statistics and Economic Studies, France; Mr. C. A. Oomens, Central Bureau of Statistics, Netherlands; Professor Richard Stone, Department of Applied Economics, University of Cambridge, England; and Dr. S. G. Tiwari, Central Statistical Organisation, India. Mr. George Jaszi, Office of Business Economics, United States, and Mrs. M. Mód, Central Statistical Office, Hungary, were unable to attend the third session of the Expert Group; and Professor M. D. McCarthy, formerly Director, Central Statistics Office, Ireland, had resigned from the Expert Group. Also participating in the third session of the Expert Group were Mr. A. Calleja, Statistics and National Accounts Division, Organisation for Economic Co-operation and Development; and Messrs. P. Erba and J. Petre, Statistical Office of the European Communities. Professor Stone was re-elected Chairman of the third session of the Group.

3. The Expert Group considered document E/CN.3/356, Proposals for the Revision of the SNA, 1952; August 1967, in the light of the comments and proposals concerning this document made by working groups which had met in Africa, Asia, Latin America and Europe, and submitted by national statistical authorities. The additions to, and clarifications and modifications in, document E/CN.3/356 which the third session of the Group recommended as a result of these discussions, are given in this report. Also described are the discussions of the Expert Group of questions raised and suggestions made by the working groups, and in

the communications from national statistical authorities, which did not lead to recommendations for changes in document E/CN.3/356. For purposes of discussion, the third session of the Expert Group had the following papers before it in addition to document E/CN.3/356: Report of the Working Group on the Revision of the SNA, Fifth Conference of African Statisticians, E/CN.14/CAS.5/NAC/27; Draft Report of the Working Group of Experts on National Accounts, 6 - 13 November 1967, Economic Commission for Asia and the Far East and United Nations Statistical Commission; Draft Report, Working Group on National Accounts, 30th October - 10th November 1967, Economic Commission for Latin America and United Nations Statistical Office, ST/ECLA/Conf.28/L.5; Report of Session Held in Geneva 9 - 19 October 1967, Working Group on National Accounts and Balances, Conference of European Statisticians, Conf.Eur.Stats/WG.22/18; and a summary of the comments of national statistical authorities on document E/CN.3/356.

4. The Expert Group also considered the further work which it would be desirable to carry out in respect of national accounting. The proposals of the Group in this respect are given at the end of this report.

II. SCOPE AND ORGANISATION OF FINAL DOCUMENT ON THE REVISED SNA

A. Scope

5. The Expert Group noted that document E/CN.3/356 did not deal with all the aspects of national accounting which should be the subject of international guidance. While the place of national and sector balance-sheet accounts in the structure of the new SNA, and the concepts of these accounts, are described, the details of the definitions and the standard accounts and tables in respect of balance-sheet statistics are not given. Quarterly accounts and tables or regional accounting are not discussed, and rudimentary first steps only are taken in linking income distribution and manpower data with the national accounts. Nor have needed statistics on population or research and development expenditure been delineated in the system.

6. The Expert Group considered that except for a brief discussion of quarterly series of national accounting data, it is inappropriate at this juncture to add to the topics dealt with in document E/CN.3/356. The Group concurred in the view of some of the regional working groups that the discussion in Chapter VIII of the document of the standard accounts and tables of the system should be extended to indicate the type of series for which it would be of particular interest to compile quarterly data.

7. Thus, the international guidelines which it is hoped the fifteenth session of the Statistical Commission will adopt, will not deal with certain aspects of national accounting. The studies required in order to develop international guidance in respect of the omitted subjects are indicated below, in the suggested programme of future work in national accounting. The Expert Group considered that in the preface to the publication to be issued on the revised SNA which the fifteenth session of the Statistical Commission adopts, it will be desirable to describe the stage in international guidance concerning national accounting which the publication represents, and the further work which remains to be done.

B. Organisation of the Publication

8. The Group discussed a number of suggestions for altering for purposes of the final document on the new SNA, the arrangement of the chapters in document E/CN.3/356 and the placement of the tables on classification schemes and of the mathematical appendices. It was proposed that present Chapters III and IV, on the system as a basis for input-output analysis and quantity and price comparisons, respectively, follow the last chapter on the system in current prices, i.e., present Chapter VIII, and that the chapters of the final document should be organized into five parts. These parts might deal with (i) the structure of the system, (ii) definitions and classifications, (iii) the standard accounts and tables, (iv) input-output analysis and quantity and price comparisons, and (v) the adaptation of the full system to the developing

countries. In this view, the re-arrangement of the chapters, as well as grouping the chapters into parts, would facilitate the use of the publication by various classes of interested individuals. Another proposal was that the tables on classification schemes and the mathematical appendices be annexed at the end of the document. This suggestion was intended to make it easier to locate and use the tables on classifications and to restrict the size of the main body of the document.

9. Most of the Experts considered it unnecessary and impracticable to alter the order of the chapters in document E/CN.3/356 or the placement of the tables on classification schemes and the mathematical annexes to chapters. They doubted that significant advantages would be gained in placing present Chapters III and IV after Chapter VIII; and pointed out that the material in Chapters III and IV includes further discussion of the structure of the system, which is dealt with in Chapter II. The inclusion in the first chapter of the publication of an adequate discussion of the layout of the document and the role of each chapter in the description of the system, should serve the purposes which led to the proposal to re-arrange the chapters and organise them into parts.

10. It was noted that because a number of the tables on classification schemes furnish definitions and other supplementary materials to the textual discussion of transactions and transactors, it would be disadvantageous to shift the tables to annexes at the end of the document. Where the links between the textual discussion, on the one hand, and tables on classification schemes or the mathematical annexes on the other, were not as close, it is still desirable to position these tables and annexes as close to the pertinent text as is feasible. It was considered that listing the tables in the table of contents of, or introduction to, the publication should facilitate the location and use of the tables.

11. The Group considered that the inclusion in the final document of a detailed table of contents and index will materially facilitate its use. The addition of a glossary of terms will also be of substantial value for this and other purposes. The issue of a type-set publication will make

it possible to limit the size of the document and to utilize a number of devices for appropriate presentation.

III. PURPOSES AND USES AND THE STRUCTURE OF THE SYSTEM
(CHAPTERS I and II, E/CN.3/356)

A. Purposes and Uses

12. The Experts noted that one of the regional working groups had requested a fuller discussion in Chapter I of document E/CN.3/356 of the circumstances and consideration which led to the revision of the SMA, and of the uses of the new system. The Group considered that while it may be appropriate to indicate the reasons for revising the SMA more fully, there is little point to elaborating the necessarily brief discussion of the uses to which the data of the new system may be put. All that should, and can, be done in Chapter I is to present a brief outline of the analytical and instrumental potentialities of the new system. Table 1 clearly indicates the wide range of analytical uses to which the data of the revised SMA may be put. It was noted that in discussing the use of the new system as a basis for international reporting of national accounting data, the reference should not be to the Yearbook of National Accounts Statistics only.

B. Structure

13. In considering Chapter II of the document E/CN.3/356, the Experts discussed the alterations made in the structure of the system as compared to document E/CN.3/345. Accounts had been introduced in respect of institutional sector of origin. These accounts are designed to receive factor incomes from the production accounts and distribute the incomes to institutional sectors of receipt. The accounts furnish the basis for including adequate summary data on income shares in the system and forging useful links for analytical and statistical purposes between the income and outlay and production accounts. In another modification proposed in the structure of the system, domestic service furnished by one household to another had been included

among industries; and the production account for households which covered these domestic services had been eliminated. This modification had been introduced primarily for reasons of elegance of presentation.

14. The majority of the Group agreed that the domestic service furnished by one household to another should not be treated as an industry. The circumstances of production and the cost-structure of these services are substantially different from the arrangements and cost-structure in the case of industries selling domestic services. A separate production account should be re-established for the domestic service furnished by one household to another; and the gross output of these services should be classed as a non-commodity service.

15. It was generally felt that the use of a numerical example in Chapters I and II in order to describe the structure of the system is of considerable value to users of the document. It will also be helpful to annex to Chapter II the equivalent of the illustrative matrix of Table 8 where flows would be identified by symbols. The organization of Chapter II could be improved if the discussion of the opening and closing balance-sheet accounts were brought together in one section, after the sections of the chapter devoted to the accounts on flows.

C. Terminology

16. Questions of terminology were discussed by the Expert Group in the course of considering Chapters I and II. It was noted that participants in the regional working groups had felt that more appropriate terms should be sought for "commodities", "other goods and services", "industries", "services of general government", "services of private non-profit institutions serving households", and "households" in the case of the consumption expenditure account. In the case of the three later terms "general government producers", "private non-profit producers of household services" and "household consumers", respectively, had been suggested. It was considered that in the course of preparing the final document on the revised SNA, attention should be devoted to finding appropriate short terms in instances such as

those listed above. In any case, terms which are used in a special sense should be defined on first appearance in the text of the final document. It may also be useful to call attention in the glossary which is to be included in the document, to the fact that these terms are used in a special sense.

IV. THE SYSTEM AS A BASIS FOR INPUT-OUTPUT ANALYSIS
(CHAPTER III, E/CN.3/356)

A. The Chapter as a Whole

17. Like the regional working groups, the Expert Group thought that Chapter III of document E/CN.3/356 furnishes a valuable and lucid discussion of the concepts and techniques of input-output analysis and the uses of the data of the new SNA for this purpose. It was considered that the approach to the discussion of input-output analysis taken in the chapter is the most appropriate way of dealing with the subject. Suitable and useful international guidance is furnished by laying down standards in respect of the data to be included in the national accounts for purposes of input-output analysis and indicating the ways in which these data may be used to compile the main types of input-output tables, using various assumptions in respect of the correlations between cost-structure and output.

18. The choices in respect of the input-output tables to be prepared, and the assumptions to be made concerning technological relations, necessarily depend on the analytical uses to which the tables are to be put and the circumstances of the industries to which the tables relate. In this connection, fuller discussion of the main types of input-output tables, in the light of the requirements for these tables, would enhance the value of the chapter. The Group wished to call attention to the need for this purpose, for the information from national statistical offices outlined in paragraph 26 of the Report of the Third Session of the Working Group on National Accounts and Balances, Conference of European Statisticians, concerning experience and views in respect of the requirements for, and compilation of, commodity-commodity and industry-industry tables infrequently and annually.

19. The Experts agreed that the chapter should emphasize the usefulness of commodity-commodity tables in basic values for such purposes as dealing with questions of medium and long-range planning.

B. The Statistical Unit to be Used

20. The Expert Group, like the regional working groups, emphasized the need to use the most homogeneous unit of observation possible, in the production accounts of the system in order to have the most suitable data for purposes of input-output analysis. It was therefore recommended that the definition of establishment-type units in Chapter V of document E/CN.3/356 should discuss the need for, and possibilities of delineating, more homogeneous statistical units in compiling national accounting data than it is feasible to use in gathering the basic data for this and other purposes. Data in respect of the gross output and cost-structure of the more homogeneous units would of course need to be estimated from the basic data; and guidance should be furnished as to the approaches which might be used to make these estimates and the limitations to the homogeneity that can be attained. The discussion of the establishment in Chapter II should also call attention to the desirability, in certain circumstances of going beyond the most homogeneous statistical units for which it is feasible to gather data.

C. Mode of Valuation and Classification

21. The Group noted that a number of countries will encounter marked difficulties in valuing the uses made of commodities at basic values or producers' values, in particular when compiling input-output tables of the system annually. These countries will however find it feasible to use purchasers' values. While the experts emphasized the need for data in basic values, or at least in producers' values, for purposes of most forms of input-output analysis, they recognised that other analytical and instrumental purposes may be served by data on the disposition of commodities at purchasers' values and on the supply of commodities at producers' values.

22. It was noted that in view of these uses of the input-output data of the system, suggestions had been included in the notes of Chapter VIII which indicate how the standard tables on this subject, Tables 2 and 3 and 11 and 12, might be modified when it is impracticable to use basic values or producers' values. Also Chapter IX, on the adaptation of the full system to the developing countries, gives a table on commodity balances where use is made of purchasers' values. In order to describe the place of these modified tables in the structure of the system, the Group thought that purchasers' values, as well as basic values, producers' values and factor-income values, should be discussed in either Chapter III or IV.

23. The Group also discussed the problems which some countries will encounter in distinguishing between competitive and complementary imports and between protective and revenue-raising import duties. It was recognised that drawing the latter distinction may not be worthwhile in the case of some countries. The separation of imports into competitive and complementary is however of considerable value for purposes of many of the uses made of input-output tables. The experts therefore thought that this distinction should be used though the available import statistics may not lend themselves to precise classification.

D. Treatment of By-Products and Scraps

24. The Experts agreed that the treatment of by-products proposed in paragraph 30 of Chapter III should be altered in order to avoid the distortions in data and the problems in algebraic manipulation which may arise. Instead, by-products should be transferred from the output of the industry in which they are produced to the output of the industry of which they are the characteristic products in a column added to the sources-of-supply section of the table on the sources and destination of commodities (Table 27 of the chapter).

25. It was noted that in the final version of the new SNA, the discussion in paragraph 31 of Chapter III concerning the treatment of scraps derived from capital goods and sold by households, needed to be clarified.

V. THE SYSTEM AS A BASIS FOR QUANTITY AND PRICE COMPARISONS

(CHAPTER IV, E/CN.3/356)

A. The Character of the Comparisons

26. In view of the comments of some regional groups on Section A of Chapter IV, on the character and use of various types of quantity and price comparisons, the Experts thought that the discussion of this subject should be elaborated and extended. It should deal with the possibilities of the direct deflation of the balance of trade, and the evaluation of the effects of changes in the terms of trade on the purchasing power of national income. The discussion might cover the techniques which have been used for this purpose and the assumptions on which these methods are based. A fuller discussion might also be furnished of the requirements for quantity and price comparisons and more attention might be devoted to the question of suitable concepts in respect of the various flows of the income and outlay account.

B. Output and Final Consumption Expenditure of General Government

27. The Experts exchanged views on approaches to, and methods of, compiling constant-price data in respect of the output and final consumption of general government and private non-profit institutions serving households. Suitable methods for direct deflation have been developed in respect of only an insignificant part of these flows; and imputing increases in labour productivity in given industries to general government and private non-profit bodies is fraught with danger. A significant number of national studies of the questions are required before any useful guidance can be given internationally. In the meantime it would be useful to discuss more fully, the problems involved and the approaches to measurement which have been used.

C. Forms of Index Numbers and Changes in Weight Bases

28. The attention of the Experts was called to the doubts expressed at the meetings of some regional working groups concerning the proposal in paragraph 23 of Chapter IV that Fisher index numbers be used to revise the data for years between the old and new base year when shifting weight bases. It was pointed out that in order to publish continuous series, it will be necessary to chain the series by linking at one point in time, e.g. at the new weights base period, or by using the proposed method. Though the latter method involves more work, the former technique will tend to overstate the changes which have taken place over a period of years. It was recommended that the relative advantages and disadvantages of the two approaches should be discussed in the final document on the system. The Group also considered that the need to change the weight base relatively frequently, e.g. once every 5 or 10 years, should be emphasized.

D. Approach to Estimation and Series of Indicators

29. The Experts agreed that all the Chapter IV should do is to outline the alternative approaches to, and methods and sources of data for, quantity and price comparisons, and the underlying concepts and assumptions involved. It would be of value to elaborate this discussion at some points, e.g. in respect of the criteria for identifying differing articles, techniques and problems of dealing with quality changes and similar discontinuities in series, the alternative methods of estimation, and approaches to making consistent estimates. The Group noted that work has been undertaken, and will be carried forward, on systems of price and quantity statistics, basic and derived, within the framework of the national accounts, with the objective of revising and extending international guidance in respect of the subject and preparing a manual. It was recommended that this work should be mentioned in the preface to the final document on the new SNA.

E. Terminology

30. The Group noted the suggestion that in all instances, use should be made

of the phrases "at constant prices" and "implicit price indexes", in place of the terms "real" and "correlative price indexes", respectively.

VI. THE TRANSACTORS OF THE SYSTEM (CHAPTER V, E/CN.3/356)

A. Transactors of the Production, Consumption Expenditure and Capital Formation Accounts

31. The Group considered that except for the circumstances described below, the definitions of industries, the services of general government and private non-profit institutions serving households, and households, furnish suitable and adequate guidance for purposes of classifying the transactors of the production, consumption expenditure and capital formation accounts. It was emphasized that in order to classify producers according to fundamental differences in mode of carrying on and financing production, it was essential to use the primary criterion of whether or not goods and services are produced for sale on the market at a price which is intended to cover current costs. In addition, because of the presence in an economy of units producing the same types of goods and services as industries but which engage in production mainly, or entirely, for their own use, or for sale at a price intentionally set below current costs, it may be necessary to use the supplementary criterion of kind of economic activity. It was indicated that the definitions required clarification on some points.

32. The Experts agreed that it was neither desirable nor worth-while to include small-scale units such as neighbourhood social, sport and bridge clubs in the services of, or the institutional sector for, private non-profit institutions serving households. Instead, these clubs should be included in the household sector. Small social, sport and similar clubs are not infrequently informal groups of individuals who combine to carry on, and obtain facilities for, activities which would otherwise be centered in homes. Many such social groups may exist; they have no, or little, records, and the magnitude of their economic activity is insignificant. The Group considered

that bodies of this type which employ less than one person for a full year, should be included among households. It may be necessary to use additional measures of size and importance in order to define the boundary between private non-profit institutions and households suitably.

33. The Experts noted that questions had also arisen concerning the desirability of classing such facilities as eating and drinking places provided by museums and clubs, as industries. It was thought that these activities should be covered in industries only if the activities are large in scale and can be segregated into an establishment without undue difficulty.

B. Transactors of the Income and Outlay and Capital Finance Accounts

34. It was indicated that the inclusion of a table delineating the recommended institutional sectors and subsectors would be helpful.

a. Corporate and quasi-corporate enterprises

35. The Experts discussed the criteria for including certain non-financial private unincorporated enterprises and government enterprises in the institutional sector "non-financial corporate and quasi-corporate enterprises", in the light of the comments of regional working groups and national statistical authorities on this question. In general, while the comments from developed countries call for more restrictive definitions than are proposed in paragraphs 60 and 61 of Chapter V of the document, the comments from the developing countries propose that these definitions should be widened in scope. In the case of non-financial private unincorporated enterprises, for example, the comments of the latter countries propose that the availability of complete profit-and-loss and balance sheet accounts should be sufficient to class enterprise as quasi-corporate units while the comments of the former countries suggest that the additional criterion of size recommended in document E/CN.3/356 be changed from "relatively large" to "important, large" units.

36. The Experts agreed that criteria were required which would class non-financial private unincorporated enterprises, the financial behaviour

and experience of which is similar to that of relatively large incorporated units, as quasi-corporate enterprises. In the case of the developed countries, and perhaps some developing countries, the criterion of the availability of complete profit-and-loss and balance-sheet accounts for the business only is not sufficient for this purpose. Further, in the case of the developed countries, the difficulties and costs of identifying and gathering data from the considerable number of non-financial unincorporated units which are likely to maintain complete accounts, makes it impracticable to employ this criterion only. An additional criterion is therefore needed.

37. Whether the enterprises in question are important large units should prove to be useful for this purpose. It is likely, for example, that in the case of many developing countries, the important large non-financial private unincorporated enterprises only maintain complete profit-and-loss and balance-sheet accounts. If more information were available on the correlation between the attributes of non-financial private unincorporated enterprises and their financial management, behaviour and experience, it would be possible to devise a more adequate definition.

38. It was noted that, in the case of some countries, a number of the private incorporated enterprises may be small units, the financial behaviour and experience of which is the same as most unincorporated units. The enterprises are incorporated for reasons of convenience only. It would however be impracticable to propose in the international guidelines that these enterprises be distinguished from other incorporated units. It was indicated that consideration is being given in some countries to a classification of the household sector which would separate the heads of households who are classified as employees because they are the working owners of relatively small incorporated enterprises from other heads of households who are classified as employees. For similar analytical purposes, the owners of quasi-corporate enterprises would be separated from the owners of unincorporated enterprises.

39. In the case of government enterprises, the European working group had recommended that only units which are large irrespective of the organ of general government which is the proprietor, should be classed in the institutional sector "non-financial corporate and quasi-corporate enterprises". While this definition is more effective in segregating government enterprises which are likely to have large working balances than the criterion "relatively large" proposed in paragraph 59 of Chapter V, the Expert Group felt that the definition in the paragraph in question should not be modified. Though the scale of operations of government enterprises owned by local authorities may be small as compared to the size of the units owned by central government, these enterprises will often be important sources of local government investment and may give rise to special financing problems. Paragraph 60 of Chapter V should be expanded to describe more fully the rationale underlying the recommended criteria.

b. Financial institutions

40. The Experts indicated that the definition of central banks and other monetary institutions in paragraphs 67 and 68, respectively, of Chapter V needed to be elaborated and clarified.

41. The Group noted that questions had been raised concerning the apparent lack of consistency between paragraph 70 of Chapter V, on the definition of pension funds and other pension schemes, and paragraph 33 of the chapter, on the definition of social security schemes. It was agreed that paragraph 33 draws the appropriate distinction between social security and pension schemes. Schemes which are not part of arrangements imposed, controlled or financed by the government for purposes of ensuring incomes on retirement for large groups in a community, should be considered to be pension schemes. Thus, schemes formulated by the government solely in its role as an employer, e.g. arrangements for government employees which differ significantly from social security arrangements for the community as a whole or which are the

subject of negotiation between the government and representatives of its employees, should be classed as pension schemes. The Experts recommended that a definition of pension schemes in paragraph 70 should be given which makes these points. It may also be useful to elaborate the distinction between social security and pension schemes in paragraph 33.

42. In addition, in paragraph 70, it is essential to distinguish clearly between pension schemes which are to be classed as pension funds in the sub-sector "Insurance companies and pension funds" and pension schemes which are to be included in the same institutional sector as the employer of the covered employees. This distinction should hinge on whether or not a special fund exists and if there is an independent fund, whether or not it engages in financial transactions in the capital market.

43. In the discussion of paragraphs 64 and 71 of Chapter V, it was pointed out that the definition given of financial institutions is ambiguous in that the final phrase, "in the market", which is intended to relate to both parts of the definition (incurring liabilities and acquiring financial assets), can be read to relate to the last part only. The ambiguity should be removed and the definition should be expanded. A financial institution is essentially an intermediary, i.e. an institution whose principal business is that of incurring liabilities in the market in order to raise funds for lending in the market.

44. In the case of certain government lending agencies, the question arises as to whether they should be classified as financial institutions or as part of general government. They may, for example, in the early years of their existence, have liabilities to the government only though they do have the legal authority to incur liabilities to the public or to other financial institutions. In these circumstances, some countries consider it desirable to classify the units in question as financial institutions, rather than as part of general government. The Experts agreed that where government lending institutions of the type described in this paragraph exist

and are in fact classified in the sub-sector "other financial institutions", data in respect of these units should be segregated from data in respect of the rest of the sub-sector. It was also considered that this problem should be mentioned in discussing the scope of the sector "general government".

c. The sub-sectors of general government

45. The Expert Group recommended that the bodies which according to paragraph 77 of Chapter V are to be classed as "other institutions", should be allocated to central government or state and local government, depending on the major source of finance and control. Such bodies are not common enough to warrant the raising of a separate sub-sector in the international guidelines.

d. The statistical units to be used

46. The Experts considered the question of the statistical units to be used in respect of corporate and quasi-corporate enterprises and general government bodies. These topics are dealt with in paragraphs 53 through 57 and 78 through 79, respectively, of Chapter V.

47. It was agreed that in general, one type of statistical unit should be used in compiling data on the income and outlay and capital transactions of corporate and quasi-corporate enterprises or of general government bodies. If more than one type of statistical unit were to be used, the data in respect of the various income and outlay and capital transactions of the enterprises, or the general government bodies, would not be comparable since the degree of grossness (or consolidation) represented by the data would differ from one class of transactions to another. However, in the case of corporate and quasi-corporate enterprises, if the statistical unit used is the family of legal entities the majority of the equity of each of which is owned by the same interests, it may be necessary to use the individual legal entities as the statistical units in compiling and classifying the data on factor incomes called for in standard table 17. This may be the case because of the degree of homogeneity desired in the kind of economic activity

of the enterprises in view of the analytical purposes for which the table is designed.

48. The Experts considered that it is desirable to use the family of legal entities, defined in terms of ties of ownership, as the statistical unit in the case of corporate and quasi-corporate enterprises. The financial transactions, and the assets and liabilities, of these units will be controlled and managed in common. If the family were to be sub-divided into statistical units corresponding to each legal entity, there would be a number of financial transactions and links between these units which are not meaningful from the point of view of economic analysis. The Experts recognised, however, that a number of countries may find it necessary to resort to the legal entity as the statistical unit because it is impracticable to delineate, and compile data in respect of, families of entities.

49. In the case of general government, the Experts considered it desirable and most practicable to use the organs of government (e.g., the central government as a whole, each state, province, or municipality as a whole) as statistical units. The financing of all the activities of each organ of general government is, for example, decided upon, managed, and accounted for, by that organ as a whole. Since it was thought that the classification of the factor incomes according to kind of economic activity called for in Table 17 is of little, if any, interest in the case of general government, it was agreed that a more detailed statistical unit than the organs of government is not needed. The industrial classification of production account data on the factor income generated in the services of general government furnishes all the required information.

C. Classification According to Kind of Economic Activity

50. The Group re-affirmed the conclusions of the regional working groups that the scheme in the new SNA for classifying establishment-type units according to kind of economic activity should conform to the revised ISIC. The divisions, sub-divisions and major groups of the revised ISIC should be

used, as in Table 1 of Chapter V. It was agreed that the classification scheme for purposes of the national accounts would need to cover the activity of owner-occupied dwellings, which is not included in the ISIC, and to call for the sub-division of the category "public administration and defence" into a number of major groups. This sub-division is required so that the kind-of-activity classification of the services of general government may be transformed into the purpose classification of general government. The Experts recommended the raising of a major group in respect of owner-occupied dwellings under the sub-division "real estate". They were informed that the fifteenth session of the Statistical Commission is likely to adopt a revised ISIC and that it would therefore be possible to include a definitive scheme in the final document of the new system.

51. It was suggested that the discussion of the scheme of industrial classification in the final document on the revised SNA, should indicate the desirability, in certain cases, of employing more homogeneous units in respect of kind of activity in national accounting than the units it is practicable to use in gathering basic data. In the case of such activities as agriculture or construction, more detailed industrial classification is wanted than can be based on the statistical units it is feasible to use in gathering basic data. In such situations it may be feasible to make estimates of the components of cost and output of the desired, more homogeneous statistical units.

52. The Experts were informed that a general-purpose scheme for the classification of enterprise-type units according to kind of economic activity is being developed. This scheme is, as far as possible, to consist of the less detailed categories of the revised ISIC. However, it may be necessary to combine some of the sub-divisions, e.g. for mining and manufacturing, of the revised ISIC in view of the range of activities of individual enterprises. It did not appear that the fifteenth session of the Statistical Commission would be in a position to adopt an enterprise-type industrial classification scheme.

53. The Expert Group thought it essential to include at least an interim scheme for the industrial classification of enterprise-type units in the final document on the revised SNA. It was considered that the interim scheme should, as far as possible, consist of the sub-divisions of the revised ISIC but that the draft classification in Table 2 of Chapter V, which delineates a general-purpose scheme, is too detailed for purposes of the national accounts. The interim scheme which the Experts recommended is set out in Annex I. It was thought necessary to combine diverse sub-divisions of the revised ISIC which is under consideration, in view of the combinations of activities engaged in by families of legal entities and the need for an abbreviated classification.

54. The annexed classification also differs from the draft revised ISIC in that the category "Banks, other financial institutions and insurance" is defined to coincide exactly with the scope of the institutional sector "Financial institutions". For example, such enterprises as security and commodity brokers who do not perform financing and depository functions, investment consultants, stock exchanges, insurance brokers, are excluded from the category in the annexed scheme of classification, but are included in the corresponding categories of the ISIC. The Expert Group recommended that the scope of the corresponding categories of the ISIC should be defined to coincide exactly with the definition of the sector "financial institutions" in the revised SNA; and requested that this recommendation be called to the attention of the groups which deal with the revision of the ISIC.

D. The Classifications of the Purposes of General Government and Private Non-Profit Institutions Serving Households

55. The Group was informed that comparisons in certain countries of the classification schemes set out in Chapter V for general government purposes (Table 3) and for the kind of economic activity of establishment-type units (Table 1) had indicated that some additional categories are needed in the more detailed list of general government purposes in order to attain one-to-one

correspondence between the two classifications. These investigations had affirmed the analytical values and practicability of the categories of the condensed list of the classification, but raised doubts in this respect in the case of certain categories of the more detailed list. More experience in the use of the classification scheme appears to be necessary in order to delineate more suitable detailed categories.

56. The Experts therefore considered that the tentative character of the more detailed categories of the classification of general government purposes should be mentioned in the text of the final document on the revised SNA. The text should also indicate that while the recommended classification of the services (kinds of economic activity) of general government can be transposed into the recommended classification of the purposes of general government, the more detailed categories of the two schemes of classification may not be in one-to-one correspondence. It was noted that in order to delineate the cost-structure of general government purposes from data on the cost-structure of general government services, it is sufficient to be able to carry out the first transformation.

57. The Group also indicated that a separate two-digit category should be raised in the classification in respect of religion and that the definition of the categories should show where payments in respect of individual medical and health care and various types of subsidies should be classified.

E. The Resident Economic Agents

58. The Expert Group was informed that the definitions of the resident economic agents which are set out in Section E of Chapter V and which are under consideration in the revision of the Balance-of-Payments Manual are consistent, one with the other, except in the case of individuals and households. The Experts recommended that foreign visitors, commercial travellers and certain other categories of persons temporarily in a given country for a year or less, instead of for the period of three months or less proposed in document E/CN.3/356, should be considered non-residents of the country.

This will eliminate the inconsistency with the Balance-of-Payments Manual. It was considered that there are statistical disadvantages and no significant analytical advantages to the three-month limitation.

59. It was also indicated that the last sentence in paragraph 110 of Chapter V should be clarified in order to indicate that ships, aircraft or fishing fleets operated entirely, or primarily, within the political frontiers of a given country by non-residents of the country, are to be considered resident producers of the country only if these operations are carried on over an extended period of time, e.g. one year or more.

When a transfer of residence occurs in the case of the operation of such vessels or aircraft, they are to be considered as part of the imports and positive gross fixed capital formation of the country where they became resident producers and part of the exports and negative gross fixed capital formation of the country where they were resident producers. This treatment ensures consistency in scope between the gross domestic product and the stock of fixed assets of a country. The counterpart to the aforementioned transactions are transactions between the two countries in financial claims, e.g., in proprietors' net additions to investment of quasi-corporate enterprises.

VII. TRANSACTIONS ON THE PRODUCTION, CONSUMPTION EXPENDITURE
AND CAPITAL FORMATION ACCOUNTS (CHAPTER VI, E/CN.3/356)

A. The Gross Domestic Product

60. In view of the comments of the European Working Group, the Experts agreed that the definitions of the gross domestic product valued at market prices in paragraph 11 of Chapter VI should include a description of the compilation of this aggregate from data on the final uses of goods and services where imports are valued f.o.b., as well as c.i.f. It was also noted that the definition of the gross domestic product in terms of the final products of resident producers needed to be amended.

B. Gross Output of Goods and Services

61. The Group reached the following conclusions after discussing the comments of regional working groups and national statistical offices in respect of Section C of Chapter VI, on the gross output of goods and services.

- (i) It should be indicated in paragraph 17 that in practice it may not be feasible to abide by the principles of valuation completely; and the implications of these principles in the case of cash, other discounts and similar situations which frequently arise, should be clarified.
- (ii) It should be made clear in paragraph 19 that the processing by farmers for their own use of primary commodities they produce which it may be desirable to encompass in gross output includes activities such as the spinning and weaving of cloth and the making of furniture.
- (iii) The treatment of the imputed bank services charge proposed in paragraphs 32 through 35 should be retained. It is a suitable approach to the allocation of the imputed service charge which has the approval of the majority of countries.
- (iv) The view of the majority of the Experts was that net rents should not be imputed in respect of buildings owned and occupied by general government or private non-profit institutions. They considered it difficult and not worthwhile to make the imputation. Another view was that these imputations should be recommended. In this view, the imputations would put the rented and owned buildings of general government on a comparable basis and furnish useful data for planning efficient investment; and it is as feasible to make the imputation as to estimate data in respect of the depreciation of buildings and other fixed assets of general government.

(v) The category "non-commodity sales" is wanted in the case of the services of general government and private non-profit institutions serving households and in the case of domestic service rendered by one household to another. While these payments should be classed as purchases of services and goods, not as transfers (which would, for example, distort the meaning of transfers), the conditions and circumstances of these sales differ materially from those of profit-making sales of goods and services.

62. In connection with the flows in respect of the gross output of goods and services, the Group also considered the classification and treatment of rents.

63. In the case of agricultural land, it was agreed that payments of rents should not be recorded as service charges on the production account. The indirect taxes and the expenditure on maintenance and similar costs included in the rents should be classed as the indirect taxes and intermediate consumption of the agricultural industry; and the net rents involved are to be included in the operating surplus of the industry and be paid to the owner of the land as property income. As a result, in the production account, the costs and return involved in agricultural land are to be classified to the industry using the land, irrespective of whether the land is rented or owned by the producers.

64. In the case of let buildings, machinery and equipment, in general, it is not feasible to use this approach since, in a number of instances, diverse kinds of industries rent space in the same structure or lease the same type of fixed assets, e.g. transport equipment, office and other non-specialized machinery. In view of this and similar considerations, the total rents paid, gross and net, are to be treated as service charges paid to the owners of the fixed assets. The gross rent consists of maintenance and repair costs, insurance service charges, depreciation charges, indirect taxes

and similar charges on the production account; the net rent consists of the operating surplus on the rental.

65. In the case of non-agricultural land, any gross rent involved should be classed as service-charge payments and the net rent is to be treated as property income.

C. Intermediate and Final Consumption

66. The Experts discussed the recommendation of the majority of the European working group to alter the proposals set out in paragraphs 68 and 69 of document E/CN.3/356, concerning the allocation of expenditure when industries or private non-profit institutions supply commodities directly and individually to persons and general government finances the acquisition of these commodities, in part or in whole. It was agreed that the proposals in paragraphs 68 and 69 should be modified along the following lines. When general government finances these acquisitions partially or entirely, on a direct and individual basis, the total expenditure on the commodities is to be classed as the consumption expenditure of the individuals to whom the commodities are supplied. When under a national health scheme, general government enters into a general contract with private medical practitioners or druggists to provide services or medicines to individuals, the government outlays on these services and medicines are to be classed as the intermediate consumption of general government. Any payments which individuals make for these services or medicines are to be treated as their consumption expenditure.

67. The attention of the Group was called to the difference in the treatment of the reimbursable expenditure of commercial travellers abroad between the SNA and the Balance-of-Payments Manual. These outlays are classed as the intermediate consumption of the employer in document E/CN.3/356, but as the final consumption of the traveller in the Balance-of-Payments Manual. The latter treatment had been adopted because in the case of the Manual it did not require segregating this expenditure from outlays by tourists,

etc. abroad.

68. It was noted that in the case of the SNA essentially the same statistical difficulties are involved whether the reimbursable expenditure of commercial travellers abroad are considered to be household final consumption or business intermediate consumption since the reimbursable expenditure would still need to be estimated in order to be included in the wages and salaries of the commercial travellers. Further, the same type of estimating problems arise in the case of reimbursable expenditure of business travellers in their country of residence. The Group agreed that the treatment of reimbursable expenditure of business travellers set out in document E/CN.3/356 should be retained since it was the sound way of dealing with these transactions.

D. Classification of Household Goods and Services

69. The Group discussed next questions of a general character which had arisen in respect of the classification of household goods and services set out in Table 1 of Chapter VI. It was considered to be more appropriate for the Secretariat to examine the detailed comments received concerning the classification.

70. Questions had been raised concerning the designation of certain items as semi-durable, rather than durable, e.g. watches, jewellery and precious stones or parts and accessories for motor vehicles. It was noted that some of these anomalies occur because of the necessity to characterize categories as a whole. These categories are raised primarily in the light of similarities in the object of (purpose to be served by) acquiring the goods and services and the detail in which data are generally available. This sometimes results in including durable and semi-durable goods in the same most detailed category of the classification. Other apparent inconsistencies in classification according to degree of durability, result from the pragmatic approach which necessarily had to be taken in classing categories of goods as semi-durable or durable, based on the criteria of relative value and length of life.

71. The Experts considered that it is not feasible to eliminate the first

kind of anomaly in the international classification of household goods and services. Nonetheless, indicating whether the greater part of the goods encompassed in a given category are to be classed as durable, semi-durable or non-durable, furnishes useful international guidance. In addition, the text on the classification should indicate that, if feasible, i.e. if data are available, countries should classify according to degree of durability, more restricted groups of goods than those in the most detailed categories of the international classification which consists of mixtures of durable and semi-durable goods. The Experts also requested that the Secretariat re-examine the degrees of durability assigned to categories, the consistency of which national statistical authorities had questioned.

72. The Group also discussed the unit of observation to be used in classifying household goods and services in connection with the classification of purchases of package tours which include travel, food and lodging. It was agreed that the item purchased, and to be classified, in this case is the packaged tour and that it should not be dismembered into travel, food and lodging. It was noted that this principle is used in general in the classification of household goods and services, e.g. in respect of restaurants, hospital care, and the dormitory facilities of educational institutions.

73. The Group agreed that domestic service should be a two-digit category under "Furniture, furnishings, household equipment and operation". It was considered that domestic service should remain in this class of household goods and services since the main criterion of classification was the object of (purpose to be served by) the outlay, not the kind of good or service or the elasticity of demand. In the course of the discussion it was also agreed that fees paid to tax consultants should be shifted from category 8.4 to 8.5 and that purchases of cigarette paper should be classified in category 1.3. The Experts believed that the category for education should not be raised from a two-digit to one-digit level.

E. Gross Capital Formation

a. Natural growth of forests

74. The Group considered it impracticable and undesirable to include the natural growth of forests during a period of account in the increases in stocks of the national accounts. It was noted that a recent meeting of a European Expert Group on capital formation in forestry had not made this suggestion; they had proposed that attention be called to the value of having independent data on the natural growth of forests. It was pointed out that the subject of accounting for standing timber would be covered in the work on balance-sheet accounts and tables.

b. Services of general government

75. The Experts re-affirmed the recommendation in document E/CN.3/356 that the acquisition of military durables should be classed as intermediate consumption when their attention was called to the proposal of one of the regional working groups that these acquisitions should be considered to be fixed capital formation. It was also pointed out that separate data on the outlays on military durables are provided for in a memorandum item to the appropriate supporting table of the system.

76. The Group agreed that the last sentence in paragraph 97 of Chapter VI should be modified to indicate that general government transactions in stocks relate primarily to strategic materials, grains and other important commodities and sales of large lots of surplus goods.

c. Boundary between stocks and fixed capital formation

77. While the Experts recognized the difficulties of drawing distinctions between livestock to be included in stocks and livestock to be classed as fixed assets, they wished to retain the recommendation in document E/CN.3/356 that breeding stock, dairy cattle, etc. should be treated as fixed assets.

78. The Experts discussed at length the question of whether work in progress on construction of structures, roads, dams and similar projects should be classed as increases in stocks or as gross fixed capital formation.

79. In one view, fixed capital formation in construction works should consist of completions only. In this view, the data on fixed capital formation should focus on additions to the stocks of fixed assets which are available for use in production. Work put in place on uncompleted projects should be classed as increases in stocks; and might be allocated between the stocks of the producing and buying units in proportion to progress payments made. For purposes of analyzing the relationships between increases in stocks and the level of economic activity, work-in-progress on construction projects and other heavy capital goods are separated from other types of increases in inventories. As portions of a given construction work are completed and put to use, these sections could be classed as completions.

80. In another view, work put in place on uncompleted construction projects should be classed as the fixed capital formation of the buying unit, i.e., the unit for which the project is being built. It is considered that this treatment draws the distinction between fixed capital formation and increases in stocks which should be emphasized, namely it results in the most useful data for studying various types of demands for (expenditure on) commodities in relation to the level of economic activity and similar questions. Moreover, gathering separate data on work-in-progress on, and completion of, construction projects from buyers is impracticable because in their accounts they record progress payments for, or acquisitions of, uncompleted projects and acquisitions of completed projects together. In any case, difficulties arise in identifying the point at which a construction project is completed.

81. The Expert Group concluded that work put in place on the construction of structures, roads, dams and other projects during a period of account should be classed as the fixed capital formation of the unit for which the construction is carried out, whether or not the project is completed. The Experts considered that supplemental data should be compiled, if feasible, on the construction projects completed during the period of account.

d. Valuation of increase in stocks

82. The Expert agreed that the principles of valuing inventories set out in paragraphs 102 through 105 of Chapter VI should be retained. These principles are designed to enhance the degree of homogeneity in valuation irrespective of the way in which commodities produced are disposed of and to ensure that where goods are sold, withdrawn or used up, charges will be made to the accounts on stocks which are sufficient to replace the goods at market prices at the time of withdrawal. In view of the difficulties of applying the principles, the Group recommended that the text of the final version of the revised SNA should also describe the more practical mode of valuing additions to, and withdrawals from, stocks i.e., in terms of explicit costs.

e. Allocation of fixed capital formation

83. The majority of the Expert Group re-affirmed the proposal in document E/CN.3/356 that fixed capital formation be allocated to the owner of the fixed assets rather than the user in considering the suggestion of one of the regional working groups that the alternative approach should be adopted. The treatment in the document avoids the practical difficulties involved in the alternative approach and also yields data which are of value for economic analysis. The main requirements for data on fixed assets classified according to the user relate to the stocks of these goods. It is contemplated that data on the one-dimensional concept of the stocks of fixed capital classified according to user, will be included in the proposals in respect of balance-sheet statistics.

f. Segregation of transactions in buildings and land

84. In view of the statistical difficulties that are often encountered in separating transactions in structures and land into transactions in each, the Experts explored ways in which these transactions might be dealt with as a whole within the framework of the revised SNA. A satisfactory way of bringing this about could not be found. Further, dealing with transactions in land and buildings, in combination, could result in negative fixed capital

formation in the case of agriculture in view of the sales of agricultural land for purposes of urban or industrial development. The Group therefore decided that the approach taken to these transactions in E/CN.3/356 should remain unchanged. The Experts recognized that in practice it may not always be possible to estimate the transactions separately.

g. Classifications of stocks and fixed assets by type

85. The Group discussed certain suggestions for modifying Table 2, on the classification of stocks; and decided that these alterations should not be made since they would attenuate the values of the classification for purposes of economic analysis. In the case of Table 3, on the classification of fixed assets by type, it was thought that outlays on major repairs and alterations should be distinguished at the second level of classification in the case of categories 1, 2, 3 and 5.

F. Exports and Imports of Goods and Services

86. In considering the definitions and classifications of exports and imports of goods and services in document E/CN.3/356, the Expert Group emphasized the objective of attaining consistency between balance of payments and external trade statistics, on the one hand, and national accounting data which fit into the new system and satisfy analytical and practical requirements, on the other. The Experts focussed their discussion on the points of difference between the present Balance-of-Payments Manual and the proposed revised SNA. These questions are being studied as part of the review and revision of the Balance-of-Payments Manual, as well as of the SNA.

87. The Experts reached the following conclusions in respect of significant points of divergence between the present Balance-of-Payments Manual and document E/CN.3/356.

- (i) The classification in E/CN.3/356 of holdings of non-industrial gold as financial assets, whether or not owned by the monetary system, should be retained. Individuals, etc. who own gold bars, bullion or coins in fact consider these items to be financial

assets, and it would not be appropriate to treat these assets as non-reproducible assets. Further, as a consequence, the statistics of exports and imports of goods and services are free of the distortion which would be introduced if transactions in non-industrial gold were included.

- (ii) Goods exported and imported for contract processing, i.e. on behalf of the owner in the country of export, should enter into the exports and imports of merchandise of the countries involved at full value at the time of export and import for processing and export and import after processing. This is how the goods in question are dealt with in external trade statistics. It was noted that provision is made in the Balance-of-Payments Manual for a nominal change of ownership in these circumstances.
- (iii) The bunkering and provisioning of ships, aircraft, etc. should be included in exports and imports of merchandise. This approach results in data on the exports and imports of ship and aircraft fuels and stores which are consistent with the classification of commodities in the revised SNA. Including those items in the export and import of transport service would distort the usefulness of these data. It was noted that the statistics required to include bunkering provisioning in merchandise trade are available in the case of a number of countries. Fuels are shown separately, but stores are not unclassified according to type. Repair services, minor or major, in respect of non-resident ships, aircraft, etc., should be retained in the category "other commodities" of Table 4, Chapter VI of E/CN.3/356.
- (iv) The gross margin realized by a merchant in a given country on goods purchased in a second country which he ships to, and sells in, a third country, should be included in exports of distributive-trade services from the given country. The imports of the third

country would of course be equivalent to the sum of the value of the export of the goods from the second country and the gross margin. The treatment proposed in document E/CN.3/356 should be changed to that of the Balance-of-Payments Manual.

- (v) Payment of rental for the use of film strips and tapes should be classed as exports and imports of services.
- (vi) Direct purchases in a foreign country made by a given government for use by the embassies, military, etc. of the government in another foreign country, should be classed as imports of the category "direct purchases abroad, general government". Data on these imports are not included in external trade statistics, and this classification is consistent with the structure of the new SNA.
- (vii) A separate category should be established in the classification of imports and exports for recording transactions in goods which have not yet crossed the customs or free-zone boundaries of a given country in cases where the change of ownership principle is used in recording transactions in exports and imports in the national accounts.

88. The Experts also discussed the concept of general trade which is proposed in the SNA. It was noted that this concept does not include goods in transit through, or trans-shipped at the ports of, a country. Goods might be stored in free-zone area for long periods of time for purposes of trans-shipment. Goods entering and leaving the free-zone area of a given country are to be included in the imports and re-exports of the country only if the goods have been processed, repackaged, etc., or have been purchased and sold by residents of the country. The Group requested that the definition of general trade be elaborated to make this clear. It was considered that definition was also required of valuation of exports f.o.b. and imports c.i.f.

VIII. TRANSACTIONS OF THE INCOME AND OUTLAY AND CAPITAL
FINANCE ACCOUNTS (CHAPTER VII, E/CN.3/356)

A. The Classes of Transactions

89. The Expert Group agreed that the scope of indirect taxes and subsidies should be extended to include indirect taxes levied and subsidies granted by international organisations. These transactions are to be routed from or to the production accounts of resident producers directly to or from, respectively, the current account of the rest of the world.

B. The Components of Value Added

a. Compensation of Employees

90. The Group considered the scope and sub-division of compensation of employees proposed in E/CN.3/356.

91. The Experts agreed with the proposal made by one of the regional working groups that family allowances and other benefits similar to social security benefits which are paid directly by employers, should be included in employers' contribution to private pension, health, etc. schemes, instead of in wages and salaries. This would improve the international comparability of the flow "wages and salaries" and the analytical value of the categories of compensation of employees.

92. The Group considered the treatment of employers' contributions to social security in cases when there is no clear link between these payments and the social security benefits accruing to the employees at a later date.

In one view, in these circumstances, the social security contributions of employers are more akin to indirect taxes in respect of the employment (use) of labour than to the components of compensation of employees. After an exchange of views, the Experts agreed that all social security contributions by employers should continue to be included in compensation of employees and be routed to general government through the household income and outlay account. This treatment facilitates international comparability and avoids any difference in treatment between the social security contributions paid by employers and

those paid by employees. It was also noted that compensation of employees is to be divided into three categories, "wages and salaries", "employers' contributions to social security schemes" and "employers' contributions to private pension, health, workers' compensation, other insurance and similar schemes". This permits re-arrangements of the data by countries which desire to do so.

b. Consumption of fixed capital

93. The Expert Group considered the treatment of accidental damage to capital assets not made good by repairs. It was agreed that the treatment proposed in E/CN.3/356, which includes the value of actual accidental damage in fixed capital consumption, is not satisfactory because it will result in marked fluctuations in this flow.

94. It was suggested that instead, accidental damage should be treated as capital losses and be accounted for in the revaluation accounts of the system. The treatment of accidental losses as capital losses would imply, if no other changes were made in the system, that the amount of these losses would not be reflected in saving. The resulting distortion in saving could be counterbalanced if the claims paid by casualty insurance companies in connection with accidental damage to fixed assets are recorded on their income and outlay account, while the receipts of these payments by the insured enterprises are recorded on their capital finance accounts.

95. Another method of dealing with accidental damage is to include in fixed capital consumption an allowance for accidental damage, not when actual damage occurs, but in terms of the normal rate of accidental damage. Net premiums paid for insurance against accidental damage may be taken as a measure of the latter. Net premiums paid and received would continue to be recorded on the income and outlay accounts of the insured enterprises and the casualty insurance companies, as in document E/CN.3/356.

96. The Group of Experts considered that the second approach gives the most satisfactory results. It is not necessary to distinguish between various forms of casualty insurance. The level of net value added and the distribution

of saving is not distorted; and the appropriate links between the capital finance accounts and the balance sheet accounts of the system are maintained. It was therefore agreed that the proposal in document E/CN.3/356 concerning the value of accidental damages which is to be included in fixed capital consumption, should be altered to "the value of the normal rate of accidental damage". The amount might be evaluated in terms of net premiums in respect of appropriate type of casualty insurance.

c. Indirect taxes and subsidies

97. It was proposed in some national comments that the treatment of motor vehicle duties paid by households should be reconsidered. The Expert Group noted that the treatment adopted in E/CN.3/356 has received the support of the large majority of participants in the regional meetings, and decided that this recommendation should remain unchanged.

98. The Expert Group requested that the text relating to subsidies paid to public corporations be clarified to indicate that all current transfers to public corporations, irrespective of whether they are made to maintain the price level or for other purposes, are to be treated as subsidies.

99. The proposal was made that the terms "taxes on production and expenditure", "taxes on income" and "taxes on wealth" should be substituted for indirect taxes, direct taxes and capital transfers, respectively. The Expert Group did not accept this proposal, because it felt that short terms, which are defined in detail in the text of the system, are to be preferred to longer terms, which nevertheless cannot adequately describe the content of the concepts in question.

C. Entrepreneurial Income

100. The Experts agreed that the proposal in document E/CN.3/356 concerning the treatment of the retained net income of quasi-corporate units as the saving of these units, should remain unchanged. This is consistent with the rationale of the concept of quasi-corporations and with the transactions which actually take place. It was considered that the retained net income of foreign subsidiaries and branches should be dealt with in the same fashion

as the retained net income of domestic corporations and quasi-corporations though the Balance-of-Payments Manual recommends that the net retained income of foreign subsidiaries and branches should be transferred to the parent company. The Group recognised the value of data on direct investment; and agreed that the memorandum item to standard table 26 of the system, on the saving of the units in question, is a suitable way of setting out this information. The memorandum item would also provide data for purposes of reconciliation with balance-of-payments statistics.

D. Property Income

101. The Group of Experts noted that a minority of the European Working Group had suggested that royalties in respect of the licensing of patents and similar rights, should be treated as a payment for a service on the production account, rather than as a payment for the use of property as proposed in E/CN.3/356. The Experts concurred with the views expressed by the majority of the European Working Group that the treatment adopted in E/CN.3/356 should be retained.

E. Casualty Insurance

102. The Expert Group concurred in the view of the European Working Group that, in principle, in recording transactions in respect of casualty insurance, account should be taken of the reserves (liabilities) of casualty insurance companies relating to prepayments of premiums and claims not yet paid. The Experts agreed that this ideal approach should be mentioned in the revised SNA, but that, in view of the lack of experience with it, the ideal method of recording transactions in respect of casualty insurance should not be generally recommended.

F. Unrequited Current and Capital Transfers

103. The Expert Group agreed that considerations of practicability called for treating taxes on capital gains as taxes on income, as proposed in E/CN.3/356, not as capital transfers, as suggested in the comments of some national

statistical offices. It was also noted that in the view of a minority of the European Working Group, only unrequited transfers which are capital in character from the point of view of both parties to a transaction should be classed as capital transfers. The majority of the Experts agreed with the view of the majority of the European Group that the definition of capital transfers set out in document E/CN.3/356 should be maintained. In this definition unrequited transfers which are capital in character from the point of view of one party, as well as both parties, to a transaction are considered to be capital transfers.

104. It was suggested that the first level of the classification of unrequited transfers should not be on a strictly from-whom or to-whom basis. It would be desirable to include under the same heading, actual transactions and imputed flows of a similar character, in particular those which relate to social security contributions. The Secretariat was requested to re-examine the scheme of classification in order to determine whether the analytical values of certain categories would not be significantly enhanced if the categories were delineated using a combination of institutional and functional criteria. The Group also agreed that item 6.2 of the classification should be split into "taxes on income" and "other direct taxes". A proposal to combine 6.3 (compulsory fees, fines and penalties) with 6.6 (current transfers by households n.e.c.) was not retained.

G. Transactions in Non-reproducible Assets

105. It was noted that at the European Working Group, several suggestions had been made for changes in the treatment of art objects, antiques and similar non-reproducible assets. The Experts concurred in the view expressed by the majority of the European Group that the treatment adopted in E/CN.3/356 fits best into the structure of the system, and should therefore be retained.

H. Transactions in Financial Claims

106. In the light of comments of the of the European Working Group, the Experts agreed on the following modifications in the classification of

financial claims.

- i. The categories "currency and transferable deposits" (8.2 and 9.2) and "other deposits" (8.3 and 9.3) should be split into deposits in national currency and deposits in foreign currency.
- ii. In the second line of the definition of currency and transferable deposits (8.2 and 9.2) "or" should be replaced by "and".
- iii. In the definition of "trade credits and advances" (8.11 and 9.11), reference should be made to the usefulness of a sub-division into short-term and long-term, so as to permit the delineation of all forms of short-term and long-term financial claims
- iv. A separate category should be established for the types of accounts receivable and payable now included in category 8.12 and 9.12 of the classification. Category 8.12 and 9.12 should be limited to differences in the time of recording payments and receipts and statistical discrepancies in the classified data on financial claims. In principle, these differences should be classified to the appropriate preceding headings of the classification. Countries which are not able to do so should, if possible, indicate the character of the differences and discrepancies remaining in category 8.12 and 9.12.

IX. STANDARD ACCOUNTS AND TABLES (CHAPTER VIII, E/CN.3/356)

107. The Expert Group discussed certain general questions in respect of the standard accounts and tables, as well as detailed changes in the accounts and tables proposed by the regional working groups and in the comments of national statistical offices.

A. General Aspects

a. Purpose of the tables

108. It was noted that the standard tables are primarily designed to

furnish guidance in respect of the data of the system which are of particular interest for compilation and publication. The tables are not intended to indicate the exact manner in which the series of data to be issued or should be arranged in tables. For the purposes of national and international publication of the data, decisions in respect of this question will need to be made in the light of the medium, purposes and circumstances of publication. The Experts considered that the discussion of this subject in Section D of Chapter VIII, on the uses of the standard accounts and tables, is to be useful. It was suggested that paragraph 74 be modified to omit the reference to eliminating the distinction between industries, the services of general government, etc. as a means of abbreviating Tables 1, 7, 9, 10 or 16.

b. Quarterly series of data

109. The Experts discussed the national accounting series which the final document on the revised SNA might indicate should be considered for the compilation of quarterly data. The consolidated accounts of the nation, the Class I Accounts, were thought to furnish a suitable basis for compiling quarterly data at current and constant prices. All entries in the Class I Accounts are appropriate for purposes of the current price series; the entries in the Class I Account 1 in respect of the sources of expenditure on goods and services are of particular interest in the case of the constant-price series. It was considered that for purposes of studying the short-term economic situation and constructing short-term forecasting models, certain aspects of the Class I Accounts should in addition be related as in some of the supporting tables of the system, but in less detail. Exactly which items in these accounts should be further classified and in what respect and detail should reflect the characteristics of a country's economy, e.g., the dominant factors in short-term economic instability, and the kind of policy instruments contemplated for dealing with short-term problems. Where the series are subject to marked seasonal variation, it

would be desirable to present them in adjusted as well as unadjusted form.

110. The Experts believed that the series set out in the tables of the system which might be considered for the quarterly compilation of data are as follows.

1. The gross domestic product, at market prices and at factor incomes, classified according to kind of economic activity. While the condensed list of categories in the scheme of classification may be appropriate in the case of manufacturing, the number of categories should be considerably reduced in the case of services. Constant-price series should also be considered in respect of the gross domestic product at market prices.
- ii. The final consumption expenditure of households in the domestic market, by object, at current and constant prices. It may be suitable to use the condensed list of categories in the object classification set out in supporting table 6, adding categories from the detailed list for important durable goods, e.g., furniture, fixtures, carpets (4.1), large household appliances (4.3), motor cars, etc. (6.1), and combining categories 5, 7 and 8.
- iii. Gross fixed capital formation classified according to kind of economic activity in the same fashion as the gross domestic product above, and perhaps by type of capital goods, at current prices and at constant prices. Increases in stocks classified according to type as in supporting table 7, at current prices and at constant prices.
- iv. Income and outlay and capital transactions of central government and social security funds, as in supporting table 21.
- v. Income and outlay and capital transactions of all households, as in supporting table 23.

vi. Financial transactions of the monetary system, consolidated as in supporting table 25.

vii. External transactions, as in supporting table 26.

c. Addition to, and elimination of, tables

111. It was suggested that it would be useful to add a supporting table, in the form of a balanced statement, to the Consolidated Accounts of the Nation. The table would present a moderate disaggregation of the Class I Accounts. It was agreed that for purposes of annual compilation, if Tables 2 and 11 can not be prepared, simplified standard tables, in current and in constant prices, should be added in respect of the supply and disposition of commodities. The Experts did not accept a proposal in the comments of a national statistical office that a supplementary table should be added to Table 7 which would exhibit a cross-classification of gross fixed capital formation according to the type of asset and the kind of economic activity of the purchaser for industries, the services of general government, etc.. Such a supplementary table was considered to be of special interest only.

112. The question of the relation of table 25 and of part b of table 24 to the rest of the system was discussed. Financial transactions in the system are recorded on an institutional basis with the intention of furnishing sufficiently detailed classifications of transactions and instruments so that functional reclassifications may be made for analytical purposes. The main scheme of classification, however, does not provide for the separation of the financial transactions of the government, the central bank and other money-creating banks between transactions which make up changes in a country's international reserves and other international transactions. Hence the scheme of classification does not readily yield very important elements for purposes of balance-of-payments analysis or compiling a consolidated account of the monetary system as defined in the publications of the International Monetary Fund. Part b of table 24 rearranges the

financial transactions of the sectors to provide a measure of international reserves and table 25 shows how, with these reclassifications, a consolidated account of the monetary system can be assembled.

113. The Group felt that these tables are useful additions to the system, but emphasized that the final document on the revised system should make it clear that the definitions to be used for part b of table 24 and for table 25 are those set by the International Monetary Fund and that the international collection of these data is the responsibility of the Fund.

B. Detailed Modifications in the Accounts and Tables

114. The Expert Group agreed to recommend the following changes in the standard accounts.

- i. Alter the title of Account 1 of the Consolidated Accounts for the Nation to "Gross domestic product and expenditure" and of Account 3 to "National disposable income and its appropriation".
- ii. Change the order of the items "Compensation of employees" and "Operating surplus" in Account 3 of the Consolidated Accounts for the Nation to be same as in Account 1.
- iii. A more appropriate term should be sought for "Gross investment", the total on the left hand side of the upper part of the capital finance accounts.
- iv. Divide the entry on imports in the Class II Accounts for commodities into imports c.i.f. and import duties.

115. The Experts decided on the following detailed modifications in the supporting and supplementary tables.

- i. Add a column for net value added in Table 1.
- ii. Add columns to Table 4 so that data are included on the total goods and services acquired by general government. The notes to the table should also indicate the usefulness of sub-dividing the table

according to the sub-sectors of general government.

- iii. Add columns in Table 10 for average number of employees and average number of persons engaged.
- iv. Delineate an item in Table 17 in respect of the negative operating surplus arising from the imputed bank service charges; and eliminate columns 8 and 9 from this table. Discuss in the notes to Table 17 the usefulness of data cross-classified according to the kind of economic activity of the establishments of institutional units and the kind of economic activity and sector of these units. The notes should also indicate the relationship of these series of data to the series shown in Table 17 and the matrix of the system.
- v. Separate out subsidies from column 3 of Table 33.
- vi. The changes to make in the classification of financial claims shown in table 2 of Chapter VII should be introduced into table 24.
- vii. Determine whether a counterpart item to the monetary functions of the Treasury is to be included on the asset side of table 25.
- viii. Add entries to table 26 which give exports of merchandise free of the transport and insurance services furnished by residents on imports of goods, and total imports of transport and insurance services.

C. Treatment of Statistical Discrepancies

116. The Expert Group discussed the treatment of statistical discrepancies in the standard accounts and tables in connection with paragraph 14 of the notes to the Class III Accounts. The paragraph indicates that it is desirable to exhibit the difference between independent estimates of net lending compiled from the lower and upper halves of the capital finance accounts. The Group agreed that the paragraph should be expanded to deal more fully with the subject of statistical discrepancies. It should indicate that, in principle, it is desirable to eliminate statistical discrepancies altogether.

However, not infrequently, it will be unavoidable to indicate the difference between two independent estimates of the same flow. The choice of the proper position in which to show these statistical discrepancies should be left to countries. The appropriate place will, for example, depend on the relative quality of the basic statistical data used in each instance. In the case of difference between net lending computed from the upper panel and lower panel of the capital finance account, it will often be necessary to exhibit the statistical discrepancy, probably as part of the entries in the lower panel.

X. ADAPTATION OF THE FULL SYSTEM TO THE DEVELOPING COUNTRIES
(CHAPTER IX, E/CN.3/356)

117. The Expert Group noted that the working groups in the developing regions had welcomed, and on the whole approved of, the supplementary classifications and accounts and tables set out in Chapter IX of E/CN/3/356. These classifications, accounts and tables had been devised in view of the special circumstances and problems of the developing countries, on the request of a number of these countries. The regional working groups had also considered it valuable to have the guidance furnished in the chapter in respect of simplifications which might be introduced in dealing with certain flows of the full system, e.g. consumption of fixed capital, and the broad order of priorities in developing the full system of national accounts and the co-ordinated basic statistics.

118. The Experts noted that the suggestions set out in the chapter, in particular in respect of the accounts, are intended to indicate lines of approach which countries might use if they wish to collect and compile the kind of data delineated in the accounts. The suggestions do not have the same standing as the rest of the document. The suggestions are not international guide-lines; and the Class IV Accounts, in particular, deal with an aspect of national accounting which has not yet been the subject of international discussions or of much national work. The Experts agreed that the text

of the chapter should clearly indicate the purpose, character and standing of the suggestions that are made. Orders of priority of compilation should not be suggested in the case of the Class IV, V and VI Accounts. In view of the purpose of the chapter, it should not deal with the detailed problems and questions which arise in compiling the suggested accounts.

119. It was considered that the text of the chapter should call attention to the values of compiling data in respect of given flows classified according to area. Care should be taken in the text to avoid the use of certain terms in describing the circumstances of the developing countries. In the case of Table 28, on the supply and use of goods and services, the associated notes should indicate the usefulness, if feasible, of distinguishing domestically and imported commodities in the series of data on the various uses of commodities.

XI. FUTURE WORK

120. As the last item on its agenda, the Group of Experts discussed the future work which should be undertaken in national accounting and related fields. The work can be divided into three broad areas:

- i. Preparing and publishing the final document on the revised SNA adopted by the Statistical Commission and developing questionnaires for international reporting in respect of the new system;
- ii. Developing international guide-lines in respect of balance-sheet data and complementary systems of statistics to the national accounts;
and
- iii. Preparing technical manuals in respect of various aspects of the system.

121. The Group emphasized the importance of issuing the document on the new SNA in printed form, in English, French, Spanish and Russian, as soon as possible after the new system has the approval of the Statistical Commission.

The Experts emphasized the importance of having sound translations of the document into French, Spanish and Russian. These translations must reflect the terminology adopted by national accounting statisticians for equivalent concepts, definitions, etc.. It was thought that the work on national accounting terminology in English, French and Russian which is being carried on under the auspices of the Conference of European Statisticians, should be of assistance in this respect. It will also be invaluable to obtain the assistance of the national statistical authorities in French-, Spanish- and Russian-speaking countries in reviewing the draft translations of the document.

122. The Expert Group was informed that tentative plans has been formulated to draft questionnaires in 1968 for the international reporting of data based on the revised SNA. The draft questionnaire is to be prepared by the Statistical Office of the United Nations in co-operation with interested international organisations; and is to be the subject of consultations with national statistical authorities during the latter half of 1968. The Experts agreed that it would be desirable to begin using the new questionnaire in respect of the year 1968, provided the questionnaire did not call for many new series of data as compared to the questionnaire based on the present SNA. It was noted that it may take a few years before countries are in a position to report complete and comparable data in the new questionnaire.

123. The Experts considered that it would be valuable to countries, and appropriate, to develop international guide-lines during the next five years in respect of the following subjects.

- i. The detailed concepts and definitions and the standard accounts and tables for the balance sheet accounts of the revised SNA and for the one-dimensional concept of stocks of fixed assets.

- ii. Systems of general-purpose statistics of prices and quantities which fit into the framework of the national accounts and balances.
- iii. Statistics on research and development expenditure which fit into the systems of national accounts.
- iv. A system of statistics of the distribution of income and wealth which is complementary to the systems of national accounts and balances.
- v. An integrated system of man-power, demographic and social statistics which is correlated with the systems of national accounts and balances.

124. A number of Experts thought that among the topics listed above, work on statistics of the distribution of income and wealth should have a relatively high priority. A number of countries are engaged in improving and developing these series of data, and adequate national experience for purposes of proceeding with the formulation of international guide-lines is available. Other Experts felt that a high order of priority should be assigned to definitions and standard accounts and tables in respect of balance-sheet statistics so that the international guide-lines in respect of the new SNA will be completed. The Group considered that sufficient national experience was not available to engage in the development of international suggestions concerning regional accounting.

125. The Experts agreed that manuals on the following subjects would be of material assistance to the developing countries:

- i. The basic statistics required for purposes of compiling the new system and approaches to, and methods and techniques of, estimation.

- ii. The concepts and basic data required for, and the methods and techniques of estimating, national accounting data in constant prices.

It was noted that the working groups of developing regions had requested that a high order of priority be given to preparing these manuals.

ANNEX

Classification of Enterprise-Type Statistical
Units According to Kind of Economic Activity

| Categories | Relation to List of Table 2, Chapter V, E/CN.3/356 |
|---|---|
| 1. Agriculture, forestry and fishing | Combination of categories 1, 2 and 3 |
| 2. Manufacture of food, beverages and tobacco | Category 4 |
| 3. Manufacture of textiles, wearing apparel leather and leather products | Category 5 |
| 4. Manufacture of wood and wood products | Category 6 |
| 5. Manufacture of paper and paper products and printing and publishing | Category 7 |
| 6. Coal, petroleum and chemical minerals and products and rubber and plastic products | Category 8 |
| 7. Non-metallic minerals and products, except petroleum and coal | Category 9 |
| 8. Metal minerals and products, machinery and equipment | Category 10 |
| 9. Other manufacturing industries | Category 11 |
| 10. Electricity, gas and steam and water supply | Category 12 |
| 11. Construction | Category 13 |
| 12. Wholesale and retail trade, storage and restaurants and hotels | Categories 14 and 15 |
| 13. Transport and communication | Category 16 |
| 14. Banks, other financial institutions and insurance | Category 17 excluding such activities as currency exchanges and clearing house associations; security and commodity brokers and dealers not performing depository or financing functions, |

Categories

Relation to List of Table 2,
Chapter V, E/CN.3/356

security exchanges and exchange clearing houses, investment counsellors and security-holder protective organizations, bullion exchanges and patent buying and licensing; insurance agents and brokers, insurance consultants and service bureaus, and adjusting agencies.

15. Other services

Activities excluded from category 17 above and categories 18 through 23.