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NATIONAL ACCOUNTS AND BALANCES
A COMPLEMENTARY SYSTEM OF STATISTICS
OF THE DISTRIBUTION OF INCOME AND WEALTH

Report of the Secretary-General

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I. INTRODUCTION

1. This report concerns the progress made since the Fourteenth session of the Statistical Commission in drafting international guidelines in respect of a system of statistics of the distribution of income and wealth. This system of statistics is to be an integrated set of data which complements the revised and extended System of National Accounts (SNA) and Material Product System of Balances (MPS). This paper indicates first the meetings which have been held, and the studies prepared, on the subject. The main body of the report outlines the proposals in respect of international guidelines which emerge from these studies and discussions. The last portion of this paper is devoted to discussion of the further work needed on statistics of the distribution of income and wealth.

II. WORK CARRIED ON

2. The Statistical Office of the United Nations has prepared papers on the objectives, character and content of a system of income distribution and related statistics for the consideration of three successive, but unconnected, meetings. The first meeting was the Group of Experts on Social Policy and the Distribution of Income in the Nation which the Secretary-General convened, in accordance with a resolution of the Commission for Social Development of the United Nations, from 23 January to 1 February 1967. The Group was primarily interested in the distribution of income in relation to social policy and therefore dealt mainly with the requirements for statistics of the distribution of income and wealth for purposes of identifying welfare and other social problems and assessing the effects of policies adopted to resolve these problems. The second meeting was the Working Group on Statistics of Income Distribution of the Conference of European Statisticians, which met from 1 - 5 May 1967. The subject of the discussions of this Working Group was international guidelines in respect of statistics of the distribution of

incomes, expenditure and wealth. The Fifteenth session of the Conference of European Statisticians also discussed this subject based on the Report of the Working Group. The third meeting consisted of Experts on the Scope, Methods and Uses of Family Expenditure Surveys. These surveys are of course an important source of basic data for the compilation of income distribution statistics. The paper which the Statistical Office of the United Nations submitted to the Meeting of Experts was written from that point of view^{1/}.

A. Group of Experts on Social Policy and the Distribution of Income

3. The paper submitted to the Group of Experts on Social Policy and the Distribution of Income in the Nation was devoted to outlining the scope, character, definitions and classifications of a system of income distribution and related statistics in the light of the requirements for these data in assessing social conditions and formulating and evaluating social policies.^{2/} The Group of Experts considered that this system of statistics should be complementary to the new SNA and MPS and should deal with the distribution of wealth, as well as the distribution of income and consumption. Data on the value of various goods and services furnished to the population free of charge by general government and private non-profit bodies should be included in the most complete measures of consumption.

4. It was agreed that such a system of statistics would furnish a means of (i) assessing the distribution of income and wealth among the population and differences in their level of living and (ii) defining minimum levels

^{1/} Requirements for Data for Purposes of Income Distribution and Related Statistics, Meeting of Experts on The Scope, Methods and Uses of Family Expenditure Surveys, International Labour Office, FES/1967/III.

^{2/} Statistics of Income Distribution, Group of Experts on Social Policy and the Distribution of Income in the Nation, Commission for Social Development, E/CN.5/AC.13/R.2.

of living and identifying disadvantaged groups in the population. The data would also be of value in (i) delineating the effects of the redistributive measures and programmes of the public authorities on the distribution of income, wealth and consumption and (ii) tracing the relationship between economic development and social measures.^{3/}

5. The Group of Experts emphasized that in order to identify and assess as completely as is feasible existing conditions and the means of rectifying maldistributions in welfare, it is necessary to have three sets of data in non-monetary terms in addition to the system of income distribution and related statistics. Two of the additional bodies of data are required for purposes of studying the redistributive programmes of government and private non-profit institutions which consist of the provision of goods and services to the population free of charge. These series of data concern (i) the quantities of various goods and services received (utilized) by the various groups of a population, and (ii) the character, location and dimensions of the available government and private non-profit facilities and services for providing goods and services free of charge to the population. The third series of statistics consist of natural indicators of well-being, such as measures of life expectancy, standardized mortality and morbidity rates, and data on educational attainment, housing conditions and levels of nutrition.

6. The Experts indicated that it will be valuable to have the additional bodies of data, as well as income distribution statistics, in respect of all feasible levels of aggregation - macro (in respect of the nation as a whole), meso (for groups of the population), and micro (in respect of households or individuals). The natural indicators and figures of non-profit facilities mentioned above can of course be compiled at the macro

^{3/} See Report of The Group of Experts on Social Policy and The Distribution of Income in The Nation, E/CN.5/420, Commission for Social Development.

and meso levels of aggregation. The other bodies of data can relate to the micro level as well.

7. The Group of Experts considered that a system of income distribution statistics organized around the main stages in the distribution, redistribution and use of income which were proposed in the paper submitted by the Statistical Office of the United Nations, would yield valuable data for purposes of dealing with questions of social policy. The main stages and associated aggregates are (i) the distribution of factor incomes and the total of such incomes received, (ii) redistributive transfers and disposable income and (iii) the disposition of disposable income and consumption. The Experts agreed with the paper that two concepts of consumption are needed, namely, household consumption expenditure, i.e., out of disposable income and total consumption of the population, i.e., household consumption expenditure plus goods and services which general government and private non-profit bodies furnish free of charge. They were also of the view that the definitions and classifications of the income and consumption flows and aggregates proposed in the paper, essentially those of the revised SNA, are on the whole appropriate for purposes of social analysis.

8. As was indicated earlier, the Group of Experts considered that the system of statistics should in addition cover the distribution of accumulation (e.g., capital formation, transactions in financial claims) and wealth (holdings of tangible assets and financial assets and liabilities). These aspects of the national accounts and balances should be included since during the course of the life cycle of income earners there are likely to be periods during which financial resources are accumulated and other periods during which past saving are drawn down or indebtedness contracted. Further, where farms or other unincorporated businesses are the main source of income, it is important to have data on the stock of fixed assets used and the gross additions to this stock.

9. The Group of Experts emphasized the need for per-capita or per earner figures,

as well as totals for households, in the case of a number of the series of data. They concurred in the suggestions in the Statistical Office paper that it would be particularly valuable to have tabulations of the data according to socio-economic status, age and sex, and industrial attachment of heads of households and number of members, region (e.g., urban, rural), and size of the earned and disposable income of households. It was noted that analysis of the data according to fractile groups is invaluable in portraying and comparing the form of distributions of expenditure, income or wealth data for different populations or periods of time, in identifying disadvantaged and other disparate groups in a population, and in compiling measures of concentration.

10. The Group of Experts recognized that gathering and compiling the data of the distribution of consumption, incomes and wealth wanted for purposes of dealing with social and other questions, is a complex and difficult task. It was thought that in the case of most countries, it will be necessary to resolve a number of problems of concept and classification and to evolve a set of co-ordinated enquiries over time. The Experts believed that the provision of guidance by the Statistical Commission in respect of a system of statistics of the distribution of income, expenditure and wealth, would be of substantial assistance to countries in the orderly development of these data.

B. Working Group on Statistics of Income Distribution

11. The paper the Statistical Office of the United Nations submitted to the Working Group on Statistics of Income Distribution of the Conference of European Statisticians discussed in some detail the objectives, scope, character and relation to the new SNA and MPS, definitions and classifications of a proposed system of statistics of the distribution of income, expenditure and accumulation.^{4/} It also dealt with the order of priority in which the

^{4/} Statistics of The Distribution of Incomes, Expenditure and Accumulation, Working Group on Statistics of Income Distribution, Conference of European Statisticians, Conf.Eur.Stats/WG.27/2.

system might be evolved, in the light of the requirements for, and problems of collection of, the various series and the stage reached in national work on income distribution and related statistics. The proposals made in the paper reflected the conclusions which the Group of Experts on Social Policy and the Distribution of Income reached in respect of these statistics.

12. The Working Group agreed in principle with the approach to a system of statistics of the distribution of income, expenditure and accumulation taken in the Statistical Office paper.^{5/} It was considered that the system should be complementary to the new SNA and MPS and that despite the problems of compiling some of the required data, particularly at relatively detailed levels of aggregation, the concepts and definitions of, and population covered in, national accounting should be used. This would not only make it possible to use the income distribution statistics in conjunction with national accounting data, but would also provide the data wanted every five years or so and annually in respect of questions of economic welfare and incomes policy. While it was felt that the system should encompass data on the distribution of accumulation and wealth, the Working Group thought that the details of definition, classification and tabulation should be formulated for only those items in respect of which sufficient experience has been accumulated.

13. The Working Group considered that the complementary system should emphasize two more stages in the receipt and disbursement of incomes than are mentioned in paragraph 7 above. The additional stages are (i) receipts of employee compensation and entrepreneurial income, which fall short of distributed factor incomes by net property incomes and (ii) receipts of distributed factor incomes and current redistributive transfers, i.e., all current receipts. They approved of the proposal to organize the data of the system into three groups of tabulations: (i) tables summarizing all aspects

^{5/} See Report of the Meeting Held in Geneva, 1-5 May 1967, Working Group on Statistics of Income Distribution, Conference of European Statisticians, Conf.Eur.Stats/WG.27/5.

of income distribution and related statistics, (ii) tables concerning each group of transactions (e.g., each stage in the receipt and disbursement of income) classified according to the characteristics of transactors and (iii) tables showing the main aggregates of each group of transactions cross-classified according to two or more characteristics of transactors.

14. The Working Group considered that in addition to households and individuals it will be valuable to use husband-wife combinations as statistical units in gathering data in respect of selected assets and liabilities and the derived property incomes. The Group approved on the whole of the definitions and classifications of transactor units and transactions proposed in the Statistical Office paper. It was emphasized that an important aspect of further work on the complementary system should be the development of schemes of classification and the improvement and elaboration of the definitions in the light of practical problems of collection and estimation. The Group also thought it desirable to devise concrete proposals in respect of accounts and tables during the next stage of work.

C. Other Activities

15. In accordance with the request of the fourteenth session of the Statistical Commission, work has also started on a comparative analysis of national practices in respect of statistics of the distribution of income, expenditure and accumulation. The study deals with the sources from which these data are compiled (e.g., income tax and wage statistics, population censuses, household income and expenditure surveys, enquiries into saving), the character and scope of the enquiries, the concepts, definitions and classifications used, and the tabulations prepared. The results of the comparative analysis will of course be of value in developing international guidelines in respect of a complementary system of statistics of the distribution of income and wealth and in exchanging national experience and views in respect of the concepts, methods and problems of compiling these statistics.

16. The work thus far done on this study indicates that the data on incomes, consumption and accumulation of various classes of the population now compiled in the case of a number of countries, fall short of the requirements for such information. The available information is limited to tabulations of incomplete data derived from income-tax returns, social security records, wage-and-salary enquiries, family-budget surveys and population censuses. These data are often restricted to particular groups in the population and to selected, or total, distributed factor incomes in cash. In the case of some recent household income and expenditure surveys, however, data have been sought on all forms of receipts and outlays. The information available for classification of the data according to the characteristics of the income recipient units is also scanty except in the case of censuses of population and household sample surveys.

17. The degree of co-ordination between the income and expenditure data from the various sources usually leaves much to be desired. Also, in many instances, little attention has been devoted to the question of relating the income data sought to national accounting concepts. As a result, it is very difficult to integrate the data into adequate presentations of micro-statistics in respect of incomes, consumption and accumulation.

18. A promising development is that periodic, detailed sample surveys of the income and outlay of all households are now being undertaken by a number of countries. Such enquiries are taken in the countries with centrally planned economies and some countries with market economies. These enquiries when coupled with co-ordinated, more extensive but less detailed benchmark data can yield the data needed for an integrated system of statistics of income, consumption and accumulation. The benchmark data might be derived from censuses of population, retail-trade censuses, social security and income tax records, etc..

19. A number of factors are leading national statistical offices to devote increasing attention to the question of improving and extending their

income distribution and related statistics. In the first place, a significant increase has taken place in the demands for the data for purposes of analysis and the formulation of policies. Secondly, the emergence of integrated systems of statistics in national accounting and demography has encouraged a co-ordinated approach to concepts, definitions and classifications in related fields. Thirdly, the use of electronic computers has facilitated the integration and summarization of basic series of data from diverse sources; and the development of general-purpose national sample surveys has provided a feasible means of gathering reliable detailed information.

III. PURPOSE AND NATURE OF INTERNATIONAL GUIDELINES

A. Objectives

20. The formulation of international guidelines in the field of income distribution and related statistics is intended to stimulate and facilitate national consideration of the improvements and extensions required in the data. The guidelines should be of assistance in determining the objectives and content of a fully developed system of the statistics and the manner in which to evolve the system, in co-ordination with national accounting and other pertinent work. Further, the guidelines should furnish the basis for devising a system of reporting and publishing comparable data for international use in respect of the more general and fundamental aspects of the statistics.

B. Character

21. Statistics of the distribution of incomes, expenditure and wealth involve a considerable number of series, classifications and tabulations. The international guidelines should focus on the character and structure of the system in relation to the national accounts and balances and the definitions, main classifications and basic tabulations involved. It may also be useful if the guidelines include descriptions of additional classifications and tabulations, and means of summarizing and analyzing the data

of the system, which would be of interest for given statistical and analytical purposes.

22. In view of the present stage of national development of income distribution and related statistics, international guidelines will of necessity indicate long-range goals for work on this subject. It therefore seems desirable to include suggestions for broad orders of priority in developing the statistics, in the light of the urgency with which the data are required and the difficulties of gathering the statistics.

23. The sections of the paper which follow sketch the character, scope, definitions and classifications of a draft system of statistics of the distribution of income, expenditure and accumulation. The proposals reflect the results of the meetings and studies described above.

IV. THE SYSTEM IN RELATION TO THE NATIONAL ACCOUNTS AND BALANCES

24. The proposed system is designed to provide much more extensive and detailed classification of data in respect of the income and outlay and accumulation and holdings of assets and liabilities of the population than it is feasible to include in the revised SNA or MPS. All that can be, and is, provided for in either system is classification of these data according to the various categories of flows and stocks and the main classes of economic agents.

25. The system of income distribution and related statistics should be complementary to the national accounts and balances, i.e., fit in with both the revised SNA and MPS. This will make it feasible not only to use the statistics of the complementary system of a country in conjunction with the data of its national accounting system but also to carry out international comparative studies of the well-being of the population in countries with differing economic and social systems. It will also avoid the confusion and difficulties which would result from treating essentially the same flows and stocks differently in the complementary system and in the national accounts and balances.

26. It seems feasible to work out international guidelines in respect of a complementary system common to the revised SNA and MPS. Though there are certain important differences between the revised SNA and the developed MPS in the way in which the receipts and outlays of the population are classified, the concepts of wages and salaries, entrepreneurial income, distributed factor incomes and the other receipts and of expenditure on goods and services and other outlays, are similar. With the addition of some further sub-divisions of flows, the building blocks for a common set of detailed income distribution and related statistics would be available in each system of national accounting.

A. In Relation To The Revised SNA^{6/}

27. In the revised SNA, the flows and stocks which are to be covered in a complementary system are dealt with in the accounts and tables on the income and outlay and consumption expenditure, capital finance, and balance sheets and revaluations of households. Data from the consumption expenditure account of general government and private non-profit institutions serving households are required for purposes of the concept of total consumption. This concept may also involve data from the production accounts of industries on outlays for recreational, health and similar services furnished to employees collectively and free of charge. As will be indicated later in this paper, the manner in which flows are grouped in these accounts is suitable for the complementary system, except in the case of the income and outlay account. For most purposes, it will be necessary to divide this account into four major parts: (i) compensation of employees and entrepreneurial income, (ii) all distributed factor incomes received, i.e., net property income in addition to compensation of employees and entrepreneurial income (iii) other current (redistributive) transfers,

^{6/} The version of the proposed revised SNA used is Proposals for The Revision of the SNA, 1952, August 1967, Statistical Commission, Fifteenth session, E/CN.3/356.

net and disposable income and (iv) consumption expenditure and saving (See Annex I.) In addition, it will be of interest for certain purposes, to use the income and outlay account as it is in the revised SNA.

28. It should be recalled that the household accounts and tables enumerated above cover private non-financial unincorporated business units, as well as the other activities of the owners of these businesses. Entrepreneurial income is the operating surplus of these unincorporated units reduced by the property income paid out in connexion with the business. Payments of consumer debt interest and business debt interest are distinguished, one from the other, in the revised SNA. However, in the case of the capital finance and balance sheet accounts of households, certain financial claims, e.g., trade credit, may need to be sub-divided into liabilities connected with the unincorporated businesses and other liabilities especially for purposes of the complementary system

B. In Relation To The Developed MPS^{7/}

29. The relevant balances and tables of the developed MPS are (i) the balance of the money incomes of the population and their expenditure and personal consumption of goods by the population; (ii) income and expenditure connected with the rendering of services and some supplementary parts of the redistribution of the aggregate social product and the national income; and (iii) the balance of national wealth. The last balance gives the population's holdings of consumer durable goods and fixed productive assets.

30. The balance of the money incomes of the population and their expenditure is the basic table for data in respect of wages and salaries entrepreneurial income and other distributed factor incomes, redistributive transfers, and the sub-division of disposable income between personal consumption and saving. It also furnishes most of the desired data on transactions in financial

^{7/} For the version of the MPS referred to see Basic Principles of the Statistical Balance of The National Economy, Working Group on National Accounts and Balances, Conference of European Statisticians, Conf.Eur.Stats/WG.22/12.

claims. This balance covers the cash transactions of persons in respect of their private business, as well as household, activities.

31. For purposes of drawing precise distinctions between incomes, on the one hand, and transactions in financial claims, on the other, further sub-division of a few categories of receipts would be required. These categories consist of "receipts from financial institutions", which, for example, may include payments of interest, life insurance claims, etc., and "other receipts". The entries of the balance would need regrouping and resummation for purposes of the complementary system of income distribution and related statistics.

32. In order to have complete data on distributed factor incomes, the cash figures of the preceding balance need to be supplemented by data on incomes in kind recorded in the table on personal consumption of goods by the population according to sources of origin. Here, as in the balance on money incomes, distinctions are drawn between wages and salaries, entrepreneurial incomes and to some extent, property incomes. This table also furnishes data on the personal consumption of material goods by the population.

33. For purposes of data on the total consumption of material goods by the population, it is necessary to add the goods utilized by institutions which furnish services to the population free of charge. The table on the income and expenditure connected with the rendering of services, is a source of this information. This table also includes the data required to determine the personal and total consumption of non-material services by the population. Figures of material goods which enterprises provide free of charge to the population are exhibited in the balance on the redistribution of the aggregate social product and the national income.

V. SCOPE, ORGANIZATION AND DEVELOPMENT OF A COMPLEMENTARY SYSTEM

A. Scope

34. While there is undoubtedly a need for data on the distribution of wealth among households in the form of consumer durable goods, financial

claims and tangible capital assets, it is doubtful whether an effort should be made to spell out this aspect of a complementary system at this juncture. The balance sheet and associated revaluation accounts of the revised SNA are not yet defined and delineated in detail. Further, very few if any, official efforts have been made to gather and compile figures systematically of the value of the financial assets and liabilities of households. Some countries do however, gather data on selected financial items, such as the value of outstanding consumer debt, and on the possession of consumer durables such as automobiles, radios, refrigerators, washing machines.

35. The revised systems of national accounting include detailed recommendations in respect of the definition, classification and tabulation of all types of capital transactions. Further, not infrequently, countries gather detailed data on household transactions in at least some types of financial claims. And, transactions in respect of private pension funds, life insurance, saving accounts and securities and capital formation in non-financial unincorporated businesses are of particular relevance to the well-being of the population and patterns of income receipt and disposition. It is therefore suggested that data on the capital transactions of households should be dealt with at this juncture in developing the complementary system.

36. All aspects of the statistics of the distribution of incomes and consumption are, of course, central to the purposes for which the data of the complementary system are wanted. Statistics of the household consumption, distributed factor incomes, current transfers and disposable income of persons have been the traditional subjects of income distribution statistics.

37. Difficult problems of concept and practice arise in efforts to compile data on the total consumption of the population. However, the proportion of consumption accounted for by free goods and services varies substantially from one country to another, and comparisons of levels of living based on

personal consumption only, would not show the complete picture. It is therefore thought that data on the total consumption of the population should be considered at this stage in developing international guidelines.

B. Coverage

38. In order to yield the most useful data for purposes of assessing the well-being of the population, and to be consistent in coverage with the national accounts, the complementary system should relate to the entire resident population. Data for the institutional population should be shown separately in all classifications of income distribution statistics. As in national accounting, the transactions of the institutional population and of the institutions in which they reside, should be separated, one from the other. The goods and services which the institutions supply to individuals free of charge, is to be part of the consumption of the institutions. These goods and services would however be included in the total consumption of the institutional population.

C. Data in Comparable Prices

39. For purposes of comparing the levels of living of groups of the population during different periods of time and projecting consumer demand, data are wanted in constant prices in respect of personal and total consumption classified according to categories of goods and services and the characteristics of spending units. For studies of trends in the well-being of various groups of the population, it will be valuable to measure changes in the purchasing power of their disposable income. In compiling the series, use should be made of the bills of goods and services in the personal consumption of each group of the population during a given period of time.

D. Organization of The System

40. The proposed organization of the complementary system of income distribution and related statistics is indicated by the manner in which items of data of the system are to be grouped and tabulated.

a. Items of data

41. The items of data are to be grouped in terms of their place in national accounting and in satisfying analytical requirements for information. The manner in which it is suggested that the items of the household income and outlay and capital finance accounts be organized is set out in Annex I. A full complementary system will include in addition household balance sheet and revaluation accounts.

42. Income: The first step in the distribution of incomes is the division of incomes originating in production between compensation of employees and operating surplus. This division of incomes is of basic interest for purposes of studying the links between the remuneration and supply of labour and capital, on the one hand, and unit costs of production and the level and competitiveness of prices, on the other. It does not however precisely portray the incomes received by resident individuals, or households, from employment and businesses; and is appropriately dealt with in the main national accounting system rather than the complementary system. It is the receipts of employee compensation and entrepreneurial income from unincorporated businesses by residents on the income and outlay accounts that is the earliest step in the distribution of income which should be covered in the complementary system. Information on the distribution of these incomes among resident households is essential in assessing the well-being of the population and the attributes with which it varies.

43. For this purpose, the net property income received by residents, individuals, or households, is also of basic interest. Data classified according to the characteristics of households on the total of distributed factor incomes received, i.e., the sum of the receipts of employee compensation, entrepreneurial income and net property income, are also wanted in considering the demand-pull aspects of incomes policy and devising fiscal measures.

44. The next phase in distributing incomes consists of the redistribution

of incomes in the form of direct taxes, social security benefits, social welfare assistance, etc.. These redistributive current transfers are non-contractual in character; and furnish the link between the disposable income and the distributed factor income of households. The transfers provide a major means through which Government directly influences the income of households for consumption and saving and their well-being. Data are therefore needed on the type and dimensions of these transactions of households classified according to characteristics which are relevant to problems of welfare and spending-saving behaviour. Also essential are statistics of the distribution of disposable income classified in a similar fashion, at least some of which should be in real terms in order to abstract from changes in prices.

45. For purposes of delineating the links between the statistics of the complementary system and the revised SNA or developed MPS clearly, it is advantageous to set out the elements and total of household current receipts and current disbursements separately, i.e., in the form of an income and outlay account. The income and outlay account shown in the complementary system might be sub-divided according to the socio-economic and other key characteristics of households to a somewhat greater extent than in the parent national accounting system.

46. Consumption and saving: Disposable income is divided into consumption expenditure and saving. Statistics of the level and pattern of consumption of goods and services by households, in relation to such characteristics as their disposable income, size and socio-economic status, are wanted for a number of purposes. Examples of these purposes are assessing and improving the level of living of the population and identifying points of demand-pull pressure. These data also provide the basis for compiling needed figures of the level of the real consumption of goods and services, and the correlative prices. Data of saving classified according to similar attributes of households as consumption expenditure, are also of considerable

interest.

47. Two concepts of consumption may be used in studies of the level of living of households. The concept most commonly used relates to consumption expenditure, i.e., consumption which is financed out of the disposable income or dissaving of the households themselves. The other concept covers, in addition, goods and services furnished free of charge by government, private non-profit institutions, and enterprises; and is referred to as the total consumption of the population. The broader concept of consumption is more suitable for international comparisons of levels of living.

48. Accumulation and wealth: During various periods in their life cycle, households may be expected to finance outlays on consumption by drawing on accumulated saving or contracting debt. This points to the need for data on the transactions in financial claims of various groups of households, and on their holdings of these claims. Data on consumer debt and on assets which are relatively liquid (e.g., savings accounts, marketable securities) or are designed to insure against periods of reduced earnings (e.g., equity in private pension funds, annuities) are of particular value in this respect.

49. Statistics of transactions in, and holdings of, financial claims should also be valuable in examining means of mobilizing funds for investment and studying saving-spending patterns of given classes of households during the course of a business cycle. For the latter purpose it would be advantageous to ascertain realized capital gains or losses on sales of financial assets and perhaps the unrealized gains or losses on holdings of these assets. Such data would be included in the revaluation account of households, which coupled with the capital finance account for a given period links the balance sheet accounts at the beginning and end of the period.

50. Much of the saving of the owners of unincorporated businesses may

be used to finance the capital formation of these units. Or, they may contract debts for this purpose. All aspects of the capital finance account of households are therefore of interest in the complementary system. Balance sheet data on the tangible capital assets of unincorporated businesses are also needed, for example, in assessing the wealth and magnitude of the entrepreneurial income of the owners.

b. Tabulations

51. The tabulations of the complementary system can usefully be divided into three classes differing in the range of items covered and the detail of classification. Each group of tabulations are intended to satisfy a differing set of analytical requirements.

52. Summary tables: The first class of tabulations should be devoted to summarizing and correlating the experience and behaviour of broad groups of households in respect of all facets of the complementary system. The extent to which transactions are detailed should be limited so as to focus attention on the main flows and relationships. These tables should show totals for the various series so as to indicate the links between the complementary system and the national accounts and balances, and furnish the basis for examining each group of households in relation to the entire population. For the latter purpose it will be useful to indicate the number of households and individuals in each group.

53. The classifications of households utilized in the summary tables should be those which are of basic and general value in analysis; and the least detail levels of classification should be used. Examples of these classifications are the socio-economic status and age and sex of the household head, magnitude of total and per capita distributed factor incomes received by households, and the area of location (e.g., urban-rural) of households. The classification according to socio-economic status which might be used in the summary tables is illustrated in ^{the} Annex. A number of the summary tabulations, in particular according to socio-economic status of household

head and fractile groups (e.g., quintiles) of per capita distributed factor incomes received, would be of interest internationally.

54. Tables in respect of classes of transactions: The second type of tabulations might be designed to exhibit the details of each class of transactions, classified according to the pertinent characteristics of the transactor units. The schemes of classification of households utilized for the summary tables would also be employed in each set of the more detailed tabulations. In addition, use should be made of schemes of classifying transactor units which describe the variation in the magnitude, and the relationships, of the flows in question. The classifications of transactors and transactions which are of interest for each set of tables are discussed in the following sections of this paper. A limited number of the detailed tabulations, utilizing the same classifications of households as in the summary tables and a few additional classifications which are of particular significance in each case, might be recommended for use internationally.

55. Cross-classifications by two or more attributes: The third group of tables should be designed to cross-classify the main aggregates of the complementary system according to two or more attributes of the relevant transactor units, either households or individuals. These tables may also include more detailed classifications of transactors and transactions than those applied in the second category, such as classification by number of children of the household and other aspects of the composition of the households. It will probably be feasible to include very few specific recommendations in respect of the detailed cross-classifications in the international guidelines.

E. Priorities in Developing the System

56. It seems desirable that the first order of priority in developing the complementary system be assigned to data in respect of incomes and personal consumption. Data on the total consumption of the population might be given priority over statistics of household capital transactions. Figures

of total consumption are of direct relevance to measuring the level of living of various groups in a population and international comparisons of well-being. Also, while serious difficulties are involved in gathering some of the required data, many of the figures should be available from government administrative records and performance budgets.

57. There are significant differences in the relative urgencies with which data are wanted on capital transactions. Payments from private pension funds, drawing down of savings accounts, and payments of life insurance claims are important sources of finance of consumption for significant portions of the population, and should be accorded a high priority. Next in order of priority among the capital transactions might be those carried on in respect of the unincorporated enterprises included in the household sector, purchases and sales of securities, and consumer debt. This would leave to last priority net purchases of land, other tangible assets and intangible assets other than financial claims, and some types of loans.

VI. THE DEFINITION AND CLASSIFICATION OF THE STATISTICAL UNITS

A. The Statistical Units

58. While the household should be used as a statistical unit for all aspects of income distribution and related statistics, it is also essential to use the individual as income recipient unit in the case of most items of distributed factor incomes and some items of accumulation.

59. In most instances, the distributed factor incomes accrue from the productivity activity or the property of individuals, and problems of allocating the incomes among two or more individuals do not arise. Important exceptions are income derived from farms and other household enterprises jointly owned and operated by husband, wife and perhaps other members of the family, and transactions in, and income derived from, other assets jointly owned by husband and wife. For household enterprises it would be advantageous to take the family as the statistical unit, while a husband-and-

wife unit could be usefully applied in the case of financial transactions in assets jointly owned by spouses and the income derived from such assets.

60. Because some individuals may have more than one job, the job may be a more appropriate statistical unit than the individual for analysis of scales of pay.

B. The Concept of the Household

61. In view of the uses to be made of the household-type statistical unit, it is desirable to define it in terms of the housekeeping concept that is employed in censuses of population and other demographic inquiries. Under the housekeeping concept, a household may be (i) a one-person household, i.e., a person who makes provision for his own food or other essentials for living without combining with any other person to form part of a multi-person household; or (ii) a multi-person household, i.e. a group of two or more persons who occupy the whole or part of one housing unit and make common provision for food or other essentials of living. The degree to which the persons in the group pool their income and outlay may vary. They may be related or unrelated persons. In some socio-economic situations, the family household may be used instead, i.e. a group of individuals related by blood, marriage or adoption who satisfy the other conditions of the housekeeping concept.

62. A definition is also required of the institutional population in order to clearly separate this population from non-institutional households. It is suggested that the definition of the population living in collective households recommended for inclusion in the 1970 European programme for population censuses be used for this purpose, i.e., a group of persons living together, sharing their meals, bound by a common public objective and/or general personal interest and ruled by an authority outside the group. Persons living in hotels or boarding houses should be treated as members of one- or multi-person private households. The same applies to personnel of institutions who live with their families or as individual persons in the institution but are not subject to common rules set by the institution.

• Classifications of the Statistical Units

a. Classifications for general use

63. Certain attributes of households are of interest in classifying all aspects of the complementary system. Tabulations of the data according to the socio-economic status of the head of the household and the area of location of the household may be expected to reveal systematic differences in income experience and spending-accumulation behaviour. An urban-rural classification is of considerable value for this purpose.

64. Classifications according to age and sex of the household head are valuable for purposes of studying patterns of experience and behaviour, and in analyzing trends over time for cohorts of households. Tabulations according to size of total and per capita distributed factor and disposable income are wanted for such purposes as measuring the effects of redistribution on levels of living and examining patterns of spending and accumulation.

65. Tabulations of summary data according to socio-economic status of the head of household and size of per capita income are likely to be of particular interest internationally. For purposes of international comparisons preference should be given to the use of fractile groups in classifications according to size of total income.

b. Classifications for distributed factor incomes

66. In tables on distributed factor incomes, classification according to the size of distributed factor income per income earner, or the number of income recipients and total income, would array households according to one factor in determining the magnitude of this income. Other schemes of classification which may furnish explanatory variables of the distribution of Compensation of employees and entrepreneurial income, but not of property income, are the industrial and occupational attachment of the heads of household and their educational attainment. Classifications according to number of household members and number of income recipients per household, coupled with fractile groups of size of total distributed factor income

might be emphasized in the international guidelines.

67. The socio-economic status, age and size of the income recipients should be key classifying elements for factor incomes received by individuals, while the industrial and occupational attachment, as well as the educational attainment and length of work experience, of the income earners are useful additional characteristics for the classification of compensation of employees and entrepreneurial income.

c. Classifications for disposable income and consumption

68. Classifications according to size of disposable income will be needed in studying the formation and magnitude of this income in the case of households in various socio-economic categories, as well as in describing and analyzing the level and pattern of consumption of households. More significant information for these purposes would result from the use of per capita disposable income or from cross-classifications of data by size of household and magnitude of disposable income. Also advantageous in the case of tables on the level and pattern of personal consumption are classifications according to the size of total and per capita consumption. The magnitude of disposable income, total and per capita, coupled with size of household may be the most useful classifications for purposes of the international guidelines.

d. Classifications for accumulation

69. The magnitude of saving should furnish a useful scheme of classification in tabulating data on transactions in financial assets and liabilities. For gross capital formation and capital consumption of unincorporated enterprises, the kind of economic activity of the business should be employed as a classification.

e. Socio-economic status

70. At this juncture, an internationally agreed socio-economic classification is not available, and it will therefore be necessary to develop such a classification for the complementary system. It may also be necessary to

devise standard classifications according to age and according to size of family.

71. The primary categories of the classification according to socio-economic status should distinguish heads of household according to basic status classes, for example, employers, own-account workers, members of producers' co-operatives, employees, independent inactive persons living in private households, and institutional population. Distinctions which merit consideration for the second or third levels of classification are: (i) the division of employers and own-account workers, as well as members of producers' co-operatives, into agricultural and non-agricultural; and the separation of liberal and related professions from other non-agricultural employers and own-account workers; and (ii) the division of employees into directors and managers, professional and technical workers, other non-manual workers, and skilled, semi-skilled and unskilled manual workers.

f. Classifications according to size of incomes and other flows

72. It seems desirable to emphasize the fractile-group approach in tabulations according to size of income, personal consumption or saving. The use of this approach will be of assistance in portraying and comparing the form of distribution and compiling measures of equality or concentration. Since differences in prices or currency do not play a central role in defining the form of these distributions, tabulations based on fractile groups are of particular value for purposes of international studies.

73. Tabulations of households and individuals according to size of income, expenditure, etc., defined in absolute terms, will also be required. This will be the case, for example, in cross-classifications of data according to one or more attributes of households or individuals and the magnitude of a given flow.

VII. DEFINITION AND CLASSIFICATION OF INCOMES

A. Compensation of Employees

a. Benefits in kind

74. The concept of compensation of employees in the national accounts encompasses all proceeds from employment, in money and kind, which are clearly of benefit to the employees individually. The benefits accruing to employees from the health, recreational, educational and similar facilities which employers make available to employees collectively, are not covered in the compensation of employees; and are excluded from the consumption expenditure of employees. It is considered that for purposes of studies of the welfare and economic behaviour of individuals and households, these flows should be restricted to benefits which may be unambiguously allocated and are the subject of individual decision and choice. Also excluded from compensation of employees are expenditures of producing units which contribute to the amenities of working life or compensate for expenses incurred in business travel. In general, employee compensation is defined net of any receipts or special outlays of employees in connexion with their work which are of benefit to them as producers rather than as consumers.

75. In both the SNA and MPS, part of the compensation of employees may consist of the cost to the employer of goods and services furnished free of charge, or at reduced prices, on an individual basis. The cost to the employer rather than the cost at retail is utilized as the basis of valuation for a number of reasons. In the first place, the cost to the employer is equivalent to the money income which the employee foregoes and the expenditure which the employer incurs. Secondly, the cost is a measure of the production actually embodied in the goods and services. For example, a shorter chain of distribution and transportation is likely to be involved in the case of goods and services furnished by employers than in the case of goods and services sold at retail. Thirdly, the

difficulties of estimation are eased by the use of the cost to the employer.

b. Classification

76. In the case of the SNA, but not the MPS, compensation of employees includes employers' contributions to social security and to private pension, health and similar insurance schemes. Employee compensation should be sub-divided into (i) wages and salaries, (ii) employers' contributions to social security schemes, and (iii) employers' contributions to private pension, health and similar insurance schemes. This not only contributes to comparability with each system of national accounting but also separates the receipts of employees into those of benefit currently and in the future. It also segregates the element of employee compensation in respect of which figures are generally not available from household enquiries. A sub-division into payments to (i) members of the armed forces and (ii) other employees is also proposed. Since national practice varies with regard to the inclusion of data on compensation in kind, it may also be advantageous to sub-divide wages and salaries into payments in cash and payments in kind.

c. Transactions in respect of private pension and insurance schemes

77. Where employers' contributions to private pensions are made to a pension fund, these contributions, reduced by an estimated share in the administrative expenses of the pension fund, are included in the saving of the employees on whose behalf they are made, in the form of an increase in their equity in pension funds. The share in the administrative expenses of the pension fund is part of the personal consumption of the employees. The disposable income of the employees includes total employers' contributions to the pension funds on their behalf and imputed interest on their equity in the pension funds. When pensions are paid to the employees, these payments are recorded as reductions in their equity in pension funds.

78. Where a pension fund does not exist, the pensions actually paid are shown as current transfers from the employers to the retired employees, and

an amount equal to the imputed employers' contributions included in the compensation of present employees, is shown as a current transfer from these employees to their employers.

79. In the case of casualty insurance, contributions by employers on behalf of their employees reduced by a service charge which is included in the personal consumption of the employees, are transfers from the employees to the private casualty insurance schemes. The claims paid are current transfers from the private casualty insurance scheme to the employees. In the case of life insurance, the contributions, reduced by a service charge, which is included in the personal consumption of the employees, are part of the saving of employees in the form of increases in their equity in life insurance reserves. Receipts of life insurance claims represent reductions in this equity.

80. In the developed MPS, the receipt of pensions and insurance benefits is treated as part of the current receipts of households. These transactions are however separately classified from other current receipts.

B. Entrepreneurial Income

81. In the case of both the SNA and the MPS, the expenses on the production account would be deducted from the value of gross output to arrive at operating surplus or its equivalent, and the other current outlays in connexion with the enterprise would be subtracted from operating surplus to determine entrepreneurial income.

a. Gross output

82. Gross output covers all production for market (sale or barter) and on own account for purposes of capital formation. Also included are a number of activities conducted on own account for purposes of household consumption. These activities may be carried on by household - based, or other, unincorporated enterprises engaged in production for the market, or by households which are not engaged in production for the market. In all these instances, included in gross output would be the results of agricultural, forestry,

fishing, hunting and mining activities, the second-stage processing of agricultural products by growers (e.g., the manufacture of butter and cheese, wine, flour, yarn and cloth, or furniture), and the owner-occupancy of dwellings. In the case of household and other enterprises engaged in production for the market, included in gross output in addition, is the output of any other goods and services for personal consumption by the owners which are also produced for the market. Where households engage in production for own-account consumption or capital formation only (e.g., raising crops, owner occupancy of dwellings, construction of dwellings for own use), a nominal productive unit is defined for purposes of recording gross output and entrepreneurial income.

83. Another question which arises is the valuation of production on own account. The approach proposed here, as well as in the system of national accounts and balances, is that these values should be determined in terms of the cash alternatives foregone. Thus to the producer, the value of income and consumption in kind should be considered equal to the cash income that would be realized by the sale of these items, i.e., the market value at the producing unit. It has been argued that this approach results in under-valuation of the household consumption of goods and services produced on own account and that the use of the retail price is more appropriate. However, the retail price includes the value of transport, distributive and other services which in fact are not embodied in these goods and services.

84. The proposal to value all personal consumption in terms of retail price appears to originate in the desire to arrive at measures of the quantity of goods and services consumed which do not necessarily vary with the quantum of embodied production. However, the complementary system is concerned with incomes from production and costs, as well as levels, of consumption. Further, in view of the differences between areas of a country in transport costs and price levels, it will generally not be possible to assign the same value to the identical quantum of goods or services from

the point of view of the consumer. It does not seem desirable or feasible to utilize the values assigned to goods and services as proxies for quantities consumed in all cases. Appropriate measures of the quantities concerned might be developed as supplementary data in the case of selected goods, e.g., caloric content in the case of foodstuffs. In the case of a number of other commodities, the units of measurement will necessarily be physical dimensions; and these data will be non-additive.

b. Operating surplus

85. Determining the expenses to be deducted from gross output in order to arrive at operating surplus is often beset with problems. These problems arise from the difficulties of (i) separating current outlays for household activities and for business purposes (ii) distinguishing capital outlay from current expenditure in respect of the business, and (iii) making appropriate estimates of provisions for the consumption of fixed capital. This is especially so in the case of farms. The rent paid for tenant farms may cover the farm land, farm buildings and equipment, and the dwelling; and there may be little basis for separating the three. It is proposed that rent on farm buildings and equipment only be considered an expense in arriving at operating surplus. The rent on the farm land is to be treated as a payment for the use of property in the farm enterprise; and the rent on the dwelling is to be included in the personal consumption of the farmer. In the case of owner-occupied farms the difficulties are complicated by the need to impute gross rent on the dwellings as part of gross output, to distinguish current from capital outlays in the case of the dwellings and the farm, and to separate these outlays into those pertaining to the dwellings from those relating to the farm.

c. Deductions from operating surplus

86. Entrepreneurial income accruing to households should comprise the net proceeds of the unincorporated enterprises included in the household sector of the revised SNA and the actual payments made to the owners out of the

current receipts of quasi-corporations. Entrepreneurial income net of these withdrawals is retained in the quasi-corporations and constitutes one element of their savings.

87. In order to compute entrepreneurial income from the operating surplus of unincorporated enterprises, net payments of property income in connexion with these businesses need to be subtracted. Payments of property income may consist of interest in respect of funds borrowed for use in the business or the delayed settlement of trade credit, rents on farm and other land utilized in the enterprise, and royalties in respect of patents, copyrights or concessions. Interest may be received in connexion with the business in respect of credit granted to consumers.

88. Net rents on owner-occupied dwellings in many countries constitute an important part of the net proceeds of unincorporated enterprises. These net rents should be distinguished as a separate category of entrepreneurial income in income distribution statistics.

d. Classification of entrepreneurial income

89. For purposes of studies of the links between type of productive activity and the distribution of entrepreneurial income, it will be desirable to classify entrepreneurial income according to the kind of economic activity in which it originates. A broad distinction between agricultural and non-agricultural activity, sub-divided into owner-occupied dwellings and other, would be of basic value. Further sub-division of agricultural and non-agricultural activity into employers and own-account workers and according to broad categories of kind of activity would be of considerable interest. It will be desirable to utilize relatively broad categories in order to limit the problems of allocating current expenses where one proprietor is engaged in a number of different types of unincorporated or quasi-corporate businesses.

C. Property Income

90. Property incomes consist of interest, rent, royalties, etc., and

dividends. Interest relates to actual receipts or payments and accruals of interest. The accruals of interest to households will include interest on the net equity of households in pension funds and in life insurance reserves.

91. Payments and receipts of rent, royalties, etc., should relate to the use of land, patents, copyrights, etc., only. Dividends generally consist of distributions of the net earnings of incorporated enterprises and co-operatives to owners of shares in these businesses.

D. Redistributive Transfers

a. Scope

92. The transactions of households which furnish the bridge between distributed factor income and disposable income consist of transfers of income on current account which for the most part are non-contractual (unrequited) in character. However, also included here are transactions in respect of private casualty insurance policies, whether or not the premiums are part of employee compensation, and in respect of pensions paid directly by employers.

93. It is suggested that, except for write-offs of bad debts and the finance by government agencies of purchases which households make, transfers in cash only be covered as part of the current redistributive transfers received (made) by households. Transfers in kind from general government and private non-profit institutions to persons would however be included in total consumption of the population.

b. Classification

94. In order to furnish suitable data for analyzing the nature and effect of the redistribution of incomes in respect of households, it is proposed that non-contractual current transfers be classified primarily according to the partner economic agent in the first place. The character and purpose of the transfer might be used in the second place.

First level of classification	Second level of classification ^{1/}	Third level of classification ^{1/}
A. Transfers received by households		
General government	Social security benefits	Injury and sickness; Medical expenditure; Old age pension; Family allowances; Unemployment insurance
	Social assistance payments	Medical expenditure assistance; General relief payments; Old age assistance; Widows' and guardians' allowances; Scholarships, fellowships and maintenance allowances for educational purposes; War bonuses, service grants and pensions, Other cash grants
Private non-profit organizations serving households	General relief grants Scholarships, fellowships and maintenance allowances for educational purposes Other cash grants	
Corporate and quasi-corporate enterprises	Cash grants Write-offs of bad debt	
Other households	Cash grants Write-offs of bad debt	
Rest of the world	Migrants' remittances Other cash grants Gifts in kind	

First level of classification	Second level of classification ^{1/}	Third level of classification ^{1/}
B. Transfers made by household		
General government	Social security contributions	
	Direct taxes on income	
	Compulsory fees, fines and penalties	
Private non-profit organizations serving households	Membership dues	
	Donations to educational, medical and charitable institutions	
	Donations to religious organizations	
Other households	Cash grants	
	Write-offs of bad debt	
Rest of the world	Migrants' remittances	
	Other cash grants	
	Gifts in kind	

^{1/} For definition of the categories see paragraphs 56 - 69 and Table 1, Chapter VII, E/CN.3/356.

VIII. DEFINITION AND CLASSIFICATION OF CONSUMPTION

A. The Two Concepts

95. Household consumption expenditure relates essentially to goods and services purchased by households. It includes goods and services which make up income in kind, i.e., items produced on own account and utilized in final consumption and goods and services received as part of wages and salaries. Total consumption of the population covers, in addition, free goods

and services which general government and private non-profit institutions provide to the population, individually or collectively, and which employers provide to their employees collectively. It therefore furnishes a more complete measure than personal consumption of the level of living of households.

B. Classification

96. In order to describe the pattern of consumption, it is proposed to classify household and total consumption according to type of goods and services (i.e. non-durable goods, semi-durables, durable goods, and services) and object (purpose) for which these goods and services are utilized, by means of the categories of the revised SNA.^{8/} These distinctions are designed to classify goods and services according to broad categories of income elasticity of demand and the period of time over which the goods and services are in fact consumed. The classification according to object, in addition, provides the basis for the most detailed and direct data for purposes of assessing the components of levels of living and compiling measures in constant prices and quantity terms.

97. Household consumption expenditure should include purchases of second-hand goods. Receipts from the sale of second-hand goods and scraps and waste should be shown separately as negative items under the appropriate headings of household consumption expenditure.

C. Definition and Valuation of Total Consumption

98. It seems essential to take account of a number of considerations in determining which portions of the consumption expenditure of general government and private non-profit agencies to include in total consumption of the population. The basic criteria proposed are whether the service in question is clearly and primarily of benefit to the population as consumers and adds to the level of living of persons during the period of

^{8/} See Table 1, Chapter VI, E/CN.3/356.

account. Attention also needs to be devoted to the difficulties of allocating the consumption among various groups of households.

99. Total consumption of the population should, as a minimum include, in addition to household consumption expenditure, the free food, clothing, medical care and education which general government, private non-profit institutions and enterprises furnish to persons individually, in addition to items which may already be included in income in kind. These goods and services should be valued in terms of net outlays on the items concerned (i.e. cost of production less receipts from sales).

100. In addition, the net outlays of government and private non-profit institutions on theaters, museums, libraries, parks and other recreational and cultural services, may be included. The benefits in these cases clearly accrue solely to the population as consumers. Allocation of these outlays in terms of actual use of the facilities concerned by different population groups may, however, be difficult.

101. Serious problems of definition and allocation will arise in respect of the services which employers furnish to their employees collectively. Not infrequently, these services are furnished for a number of purposes, some of which do not focus on the employees as consumers. For example, important functions of the health services provided are likely to concern work accidents and injuries, sick leave and qualifications for employment. Educational programmes may relate to vocational training, as well as to general adult education. Recreational activities may be designed to enhance the public image of the employer. In the case of common facilities which are clearly and primarily of benefit to employees as consumers it will frequently be difficult to allocate the costs of furnishing these services in proportion to the extent to which various categories of employees utilize the facilities.

102. Provision for identifying the cost of the services in question is made in the developed MPS, but not in the revised SNA. It should be noted that

it is the material cost which are identified in the MPS. In the SNA, the costs are part of intermediate consumption and primary inputs. It seems necessary to provide for a supplementary functional classification of the cost structure of producers in order to separate out these costs.

IX. DEFINITION AND CLASSIFICATION OF ACCUMULATION

A. Internal Sources of Financing Investment

103. The internal sources of finance of investment will be savings and net capital transfers received, and, in the case of households whose heads are owners of unincorporated enterprises, provisions for the consumption of the fixed capital of their businesses. It seems appropriate to show each of these flows separately in the tables of the complementary system and to define the flows as in the revised SNA.

a. Saving

104. Saving as defined in the SNA is mainly restricted to funds from current activities which are actually in the hands of, and under the immediate control of, persons for use in investment. Exceptions are contributions (employees', as well as employers') to the equities in pension funds and life insurance reserves and the imputed interest earned on these holdings. The accumulation of these rights may be expected to influence the spending-saving behaviour of persons.

105. The magnitude of saving per household should be a useful classifying element in tabulations of capital transactions, in particular figures of investment in tangible assets and data on net financial assets acquired. Saving per household will also be of interest in cross-classification with socio-economic status and the age and sex of household heads, and, in the case of households of owners of unincorporated enterprises, with kind of economic activity of the unincorporated enterprises.

b. Capital transfers

106. In the case of households not possessing unincorporated enterprises, capital transfers are likely to consist of inheritance taxes, legacies, migrants' transfers of capital, grants for damages incurred during wars, floods or other calamities, and endowments and other capital donations to private non-profit institutions. Most of these transfers occur quite infrequently during the life cycle of a household. Households of owners of unincorporated businesses may in addition receive capital transfers in respect of their business, for example investment grants, which may not be as infrequent.

B. Investment in Tangible and Selected Intangible Assets

107. In addition to the gross capital formation in unincorporated enterprises included in the household sector, this category of investment includes net acquisitions of land, copyrights, concessions and net purchases of non-reproducible art objects and antiques. These forms of investment are in sense internal investment. The same definitions and sub-divisions of these transactions as in the revised SNA are suggested. It will be of value to classify gross capital formation in fixed assets according to the kind of economic activity of the unincorporated enterprises involved.

C. Financial Assets and Liabilities

a. Classification

108. Transactions in financial assets and liabilities may be viewed as external forms of investment and external sources of financing investment and consumption. In view of the purposes to be served by the data of the complementary system on financial transactions, an adaptation is required of the scheme in the revised SNA for classifying financial claims.^{9/} The

^{9/} See Table 2, Chapter VII, E/CN.3/356 for the classification scheme in the revised SNA.

adaptation suggested is indicated below.

A. Financial Assets

1. Currency and transferable deposits
2. Other deposits
3. Securities
 - i. Quoted on stock exchange
 - ii. Not quoted on stock exchange
4. Other loans, including mortgages
5. Net equity on pension funds
6. Net equity on life insurance reserves
7. Proprietors' net addition to investment of quasi-corporate enterprises
8. Trade credit and advances
9. Other financial assets

B. Liabilities

1. Loans, including mortgages
 2. Trade credit and advances
 - i. Business debt
 - ii. Consumer debt
 3. Other liabilities
-

109. In the case of financial assets, distinctions are not drawn in the adapted classification between types of securities, or lengths of maturity of bills, bonds or loans. The list of liabilities is very brief since a few types of liabilities only are of importance in the case of households and unincorporated businesses. The same classification would be useful in the case of balance-sheet data.

b. Basis of recording

110. For purposes of the complementary system, it seems desirable to tabulate the data on the transactions in selected financial assets and

liabilities on a gross basis, i.e. show separate figures for acquisition (incurrence) and sale (redemption). Recording on a gross basis is suggested in respect of transactions relating to pension funds and life insurance actuarial reserves. For some households, receipts from these sources will be an important means of financing current expenditure, while for other households, additions will represent an important means of saving. It also seems advantageous to record transactions in securities, proprietors' net addition to investment in quasi-corporate enterprises and perhaps consumer debt on a gross basis. In the first case, this approach will make it possible to indicate realized capital gains on sales, which may be a factor in spending-saving behaviour. In the case of consumer debt, differing households may be contracting and redeeming the indebtedness.

c. Pension funds

111. In the case of pension funds, the additions to the equity of a group of persons during a given period will consist of their own contributions and employers' contributions on their behalf, reduced by their share in the administrative expenses of the fund during the period. The reductions in equity during a given period will be made up of payments of pensions or lump-sum settlements of accumulated equity (e.g., the actual or actuarial value of contributions plus interest).

112. For relatively small groups of households, the difference between the additions to and withdrawals from pension funds during a period may not be precisely equal to the change in their equity in the fund during the period. These differences may result from divergence between actual experience and actuarial expectations, losses of equity on leaving employment, etc.. In order to account for these differences it would be desirable to record them as capital losses or gains in the revaluation accounts of households.

d. Life insurance

113. The additions to life insurance reserves during a given period will

consist of the sum of the actual premiums paid, reduced by a proportion of the service charge for carrying the insurance, and the interest earned on the reserves. Reductions in the equity of households in life insurance reserves consist of payments of claims on death, on cash surrender of policies, or on maturing of endowment and similar arrangements.

114. In the case of small groups of households, the claims paid on death and the fees for the risk of providing the insurance may not be equivalent, one with the other, during a given period. Other situations may also occur which disrupt the balance during a given period between net premiums reduced by claims paid, on the one hand, and the change in the life insurance actuarial and similar reserves, on the other. For example, the loss on non-payment of premiums of the right to accumulated saving in the form of these reserves. As in the case of pension funds, it would be desirable to bring the actual capital transactions of various groups of households in life insurance and the changes in their equity on the actuarial and similar reserves of life insurance into balance through entries of capital losses (gains) in the revaluation accounts of the households.

e. Investment in quasi-corporate enterprises

115. Proprietors' additions to investment in quasi-corporate enterprises will consist of funds for investment purposes, or fixed assets, securities and the like transferred by the owners to a quasi-corporate unit. The withdrawals will consist of funds which the proprietors take from the accumulated retained saving of the quasi-corporate enterprises and from the proceeds of the sale of its fixed and financial assets, as well as transfers of fixed assets, securities and other financial assets from the business to the proprietors as individuals.

X. FUTURE WORK

116. It is proposed that work continue on developing international guidelines in respect of a complementary system of statistics on income,

consumption and accumulation, in the light of the Statistical Commission's discussion of this paper. At the present juncture, the work probably should be concentrated on transactions; balance sheet items might be included at a later date, after the detailed definitions and standard accounts and tables of national and sector balance sheets of the revised SNA have been developed. The work should be carried on in consultation with national statistical offices, through regional working groups and other means, and with interested international organizations. The advice and assistance of an Expert Group will also be needed in formulating the proposed international guidelines for consideration by the Commission.

117. Work should also continue on the comparative study of national practices and plans in respect of income distribution and related statistics, with the aim of completing the study as soon as is feasible. In addition to being a means of promoting international exchange of experience in this area of statistics, the results of the study should be useful in developing the international guidelines.

118. The Statistical Commission may wish to request the Secretary-General to carry forward the work outlined above and to report on the progress attained to the Sixteenth session of the Commission.

ANNEX. ILLUSTRATION OF A SUMMARY TABLE OF THE COMPLEMENTARY SYSTEM

Type of transaction	All house- holds	Households of:						Institu- tional popula- tion
		Employers and own account workers				Employees		
		Agricultural		Non-Agricultural		Agricul- tural	Non-Agri- cultural	
		Em- ployers	Own Ac- count Workers	Em- ployers	Own Ac- count Workers			
Number of households								
Number of persons								
1. Compensation of employees								
2. Entrepreneurial income								
3. Total								
4. Property income, net								
5. Total distributed factor income								
6. <u>Plus</u> Other current transfers received								
7. Casualty insurance, net								
8. Social security benefits								
9. Social assistance								
10. Current transfers, n.e.c.								
11. <u>Less</u> Other current transfers paid								
12. Social security contributions								
13. Other direct taxes on income								
14. Compulsory fines and fees								
15. Current transfers, n.e.c.								
16. Disposable income								
17. <u>Less</u> personal consumption								
18. Saving								
19. <u>Plus</u> Consumption of fixed capital and capital transfers								
20. <u>Less</u> Gross capital formation								
21. <u>Less</u> Net purchases of other tangible assets and intangible assets, n.e.c.								
22. Net lending								
23. Acquisition of financial assets								
24. Incurrence of liabilities								
25. Total consumption of the population								