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Updating the 1993 SNA

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Editor of the update to the 1993 SNA

Abstract: This paper gives an overview of some of the most interesting recommendations to emerge from the review of the issues considered for incorporation in the update to the 1993 SNA. It is intended to complement more formal and more comprehensive documentation of the update process available on the web site managed by the United Nations Statistical Division dedicated to the process <http://unstats.un.org/unsd/nationalaccounts/snarev1.asp>

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Introduction

The process for updating the 1993 SNA is fairly well known. A list of 44 issues was determined at the outset. These have been considered by a group of experts, the Advisory Expert Group (AEG) over a series of four meetings between February 2004 and February 2006. Provisional recommendations on each of the 44 issues have been made and these are summarized in the document entitled “the full list of provisional recommendations”¹.

In addition to the 44 issues where change was deliberately entertained, though not always accepted, there were a number of areas where clarification was felt to be desirable. A list of 39 items, some very focused and precise and some quite far-ranging, was compiled after a general call for submissions of points to be clarified. Descriptions of these items are also available.

Lastly there are a number of points where it became clear that there was inconsistency either between the different recommendations made, between what has emerged in handbooks developed since the 1993 SNA was published and the text or, in some cases, between different areas of the 1993 SNA text. These items appear on a discussion forum on the UN web site. Consideration of the first few of these is due to draw to a close in September 2006.

The present paper is less formal than any of the documents mentioned above. It is the personal view of myself as Editor of what are the most far-reaching and significant changes that are being proposed.

Pensions

Undoubtedly the topic which has generated, and continues to generate, most excitement is the topic of pensions. It is commonplace to remark that making reasonable estimates of an increasing pension burden in countries with ageing populations is a highly charged political issue. This is especially so when it is government who bears the responsibility for most pensions and these are funded on a pay as you go basis. Obviously reasonable estimates of pension entitlements would be valuable. Equally obviously making

¹ A section at the end entitled “Further reading” summarises the documents referred to and indicates where they may be found.

robust estimates presents difficulties. So the hapless national accountant is faced with the choice between accuracy and timeliness.

Some progress has been made though. This paragraph reflects the substance of discussions held very recently to find a solution acceptable to countries facing widely different models of pension provision. For funded pension schemes, it is agreed the accounts should show the amount of liabilities the scheme has to the beneficiaries rather than, as now, the amount of funds available to meet these liabilities. Thus the question of over and under funded schemes is resolved. Further, greater precision can be given to the interpretation of pension contributions. What is sum of the actual and imputed contributions by both employers and employees in a year represents the pension entitlement earned in a year. For a defined benefit scheme, the property income distributed to the beneficiary and reinvested by him in the scheme represents the increase in the value of his personal liabilities because his retirement date is one year closer with every year that passes. It is agreed that the former is the correct basis for the determining the element of compensation of employees representing the benefits of participating in a pension scheme, no matter what the nature of the scheme. For the pension supplement, it is agreed that this should apply to all private schemes and to those public scheme that are explicitly funded and where the benefits are pre-determined. Lively discussion continues on how to make estimates for unfunded schemes where it is the government who is responsible to provide the pensions. It is however clear that some latitude will be provided in the text for the extent to which such estimates will be incorporated in the core accounts.

Non-financial assets

A resurrected Canberra Group on the measurement of non-financial assets has examined a number of issues arising from the implementation of the changes in this area appearing in the 1993 SNA, for example the measurement of software and has revisited some familiar ground, for example should R&D be treated as giving rise to assets. Like the 1993 SNA at this stage in the process, the answer to the last question is affirmative.

The Group has also explored issues emerging from the work of the predecessor Group in developing the OECD manual on *Measuring Capital*. An important step is to include material on the derivation of capital services in respect of assets used in production. This approach is particularly useful in the derivation of productivity measures and also shows into how to resolve a number of issues peripheral to fixed capital measurement such as estimating the costs of ownership transfer and disposal costs. One consequences of this is to suggest again, as proposed in the 1993 revision, that the cost of capital should be added to the value of output of non-market producers. As with R&D, this proposal is still recommended at this stage.

A further insight emerged in the discussion on the measurement of intangible assets, both produced assets such as software copies and non-produced assets such as transferable leases. In such cases, an asset exists because factors intervene to cause a price differential between the price that would prevail in the absence of any constraint and the price which is payable under the terms by which the copy or lease is made available.

A detailed consideration of the role of contracts, leases and licences in the accounts has been completed and more comprehensive advice on how they are to be treated in the SNA will be given as compared to the present text.

Financial services

For most of the time since the 1993 SNA was published, the calculation of FISIM, the indirectly measured service charge on financial intermediation, has been the subject of extensive research. As a result, the option in the 1993 SNA not to allocate FISIM amongst consuming sectors will be withdrawn and a firm

recommendation made to calculate and apportion FISIM by use of a reference rate. In addition, study of other financial services has shown that much more explicit guidance is needed on services provided by means of a buy/sell margin on transactions in financial instruments. This is not a change in substance in the SNA but it is thought that more explicit mention of the need to count these margins as the output of financial institutions might give rise to a more diligent means of estimating them.

In the wake of a number of disasters, both man-made and natural, a refinement of the algorithm to calculate insurance output is suggested which will prevent the anomalous appearance of negative output when a disaster happens. The refinement consists of using expected claims rather than actual claims since it is the prior expectations of the insurance company which determines the level of premium charged. This is one of several instances of expectations being called in aid in the estimation of entries in the accounts, the others being in the case of developing net present values of assets and actuarial estimates of pension liabilities.

Government

The period since 1993 has seen a surge of interest in the level of government debt, sometimes seen narrowly as the debt of general government and sometimes more widely as that of the public sector. The 1993 SNA text does not describe any accounts for the public sector. To remedy this, close attention has been given to the harmonisation of various manuals concerned with accounts for the government and public sectors. As a result, there will be an entirely new chapter in the updated SNA dealing with this topic specifically. Background work led to a refinement of the delineation of which institutional units are deemed to come under the control of government (particularly in respect of non-profit institutions mainly funded by government) and greater precision about the meaning of that oft-quoted phrase “economically significant prices”.

A new development in the area of government accounts has been consideration of the impact of government guarantees to creditors. Some large guarantees are provided by means of financial derivatives but there are some important cases of loans where very many of the same type are issued. One example is in the case of export credits and another student loans. It has been decided that such cases should be treated in a manner similar to insurance since although the probability of any one loan defaulting is difficult to determine, a robust estimate can be made of the number of defaults in a cohort. Exceptional one-off loans will continue to be treated as at present with transactions recorded only when they eventuate or are deemed almost certain to do so.

Consideration of the government sector also brought with it one of the near failures of the update. Although public-private partnerships, private finance initiatives, build-own-operate-transfer schemes, call them what you will, are common, it has proven impossible to come up with a precise formulation of when the construction involved should appear on government’s books and when on that of the temporary operator. In this the SNA is in good company since the international accounting boards are also wrestling with the problem also, and also so far unsuccessfully.

The rest of the world and transactions between related units

The balance of payments manual is being updated on the same timescale as the SNA and the two exercises have been kept in step to ensure that the harmonisation between them achieved with the last revision is kept in place. Besides a number of clarification on terminology and extensions to new financial instruments, there are two important changes which will have repercussions on the national accounts both as regards international transactions and also domestic ones.

At present both systems have conventions about when goods which move physically from one unit to another are recorded as being sold by the first unit and purchased by the second. In particular, inter-establishment deliveries are treated as if there is a change in ownership when in fact there is not, both establishments belonging to the same enterprise. This becomes a major source of analytical confusion in the case of global manufacturing where goods are sent abroad for processing but no legal change of ownership takes place and no inflows or outflows of trade credits occur in respect of the value of the goods being processed. After extensive discussion, and the revelation that the present guidance in both manuals is sufficiently convoluted to be a source of confusion in itself, it has been agreed to recommend a much simpler procedure. Basically change of ownership in respect of goods belonging to one unit being processed by another unit will not be imputed were no legal change of ownership takes place. This will cause the total values of imports and exports to change, very significantly for some countries, but not the balance between them. (Or more precisely, if everything is measured correctly in terms of value and timing, there will be no change in the current balance. If in practice there is a difference, it will be for investigation whether the previous or new basis gives the better estimate.)

The matching case for this goods for processing issue is that of merchanting. In this case a unit in country A purchases goods from country B and sells them in country C. In this case there is a change of ownership to country A but no physical movement of the goods. To include all goods bought by global wholesalers and retailers in a country's imports and exports would inflate these to a point where analysis would be compromised as countries appear to be exporting commodities which are never present in the country. It is therefore proposed that, by convention, such goods be recorded as negative exports on acquisition and positive exports on disposal. In some cases, inventories held abroad may need to be recorded when goods have been acquired in one period but will not be disposed of until a later period.

Both these issues reflect the increased and increasing importance of globalisation. The impact on supply and use and input-output tables is profound. In the past an input-output table has traditionally been seen as a portrayal of physical and technological processes. With the changes being proposed here, the tables will reflect economic transformation rather than physical transformation. Their use in reconciling disparate data sources will remain as before but a new mode of thought will be necessary for analysis using the tables.

Units

The institutional unit is the fundamental building block of the SNA but developments in financial markets as well as those just referred to have led to the creation of new types of units which do not quite conform to the standard SNA paradigm of an institutional unit. In particular there are "units" which may exist only as a folder in a filing cabinet. They exist legally, have balance sheets, can acquire assets and liabilities on their own account but have neither physical presence nor any employees. Should these entities be recognised as institutional units and to which economy do they belong; the one where they are registered or the one where their owner is resident? What happens if the owner is government; can a government include a non-resident unit subject to the laws of another country? Running through this discussion was the knowledge that any attempt to specify these special units too precisely would lead to slight variants being created which would not legally fit the putative SNA description but were clearly designed for exactly the same purpose as those which did match.

The industrial classifications, ISIC and its regional counterparts, have just been revised and consideration of the implications for the SNA led to a revision in the treatment of holding companies. In future a holding company will refer to only the passive holding vehicle, while the unit carrying out management and control functions will be classified as providing management services. One consequence is that the head office of a banking complex may be designated a non-financial institution. Should the SNA accept this non-intuitive position in order to preserve consistency with ISIC?

Developing country concerns

The view has sometimes been expressed that many of the changes in the 1993 SNA were important for OECD countries but simply led to complications for the rest of the world without offering any major benefits in return. Some of the issues discussed this time might be thought to fall into the same category but a determined effort is being made to ensure that some topics of special concern to non-OECD countries are given suitable attention. These include the case of globalisation, already referred to, the role of migrant workers and international remittances, the role of NPIs and in particular their role in major international relief efforts, the informal economy and its implications for informal production and informal employment, the implications of debt concessionality and debt restructuring.

The new Blue Book

With all these proposed additions, will the new Blue Book still appear as one volume? Will it appear in printed form or will it appear only in electronic versions? Will it still be recognisably the same book?

The intended answer to all these questions is yes. It is proposed that the first 13 chapters of the SNA will be recognisably the same, though updated as necessary for the changes accepted. More extensive description of new material will mainly appear in new chapters including one on cross-cutting issues and chapters explaining the key features and uses of sector accounts. That for the public and government sector has been mentioned, there will also be one for NPIs, linking to NPI satellite accounts and one on the informal economy. The rest of the world chapter will be revised to link to the revision of the balance of payments manual and another chapter will provide a link to monetary and financial statistics. There will be an extended chapter on population and labour inputs including measurement of employment and hours worked. For the first time there will be a chapter mentioning that national accounts are usually presented as time series in both current prices and volume terms and discussing the basic identities concerning GDP, GNI and other key macro-aggregates. In order to accommodate these expansions, some condensation of material will appear but the main device used to keep the printed copy to a manageable size is to place some of the material valuable in very specific but infrequent circumstances in “electronic annexes”. As such they will formally be part of the full publication and will appear in any electronic version along with all the other chapters and annexes but will not be included in the paper copy.

The plan is still that the complete draft will be complete by the end of 2007 for submission to the Statistical Commission for approval in February 2008.

Further reading

Technological developments since the 1993 revision of the SNA have meant a change in the way the update teams are working and in the amount of material easily available to interested persons. The UNSD has set up a section of their web site dedicated to the update process. Entitled “Towards 1993 SNA Rev.1” it is accessible at <http://unstats.un.org/unsd/nationalaccount/snarev1.asp>.

The site contains details of the process, progress reports, papers from all the meetings held so far and full reports of those meetings. The document entitled “the full list of provisional recommendations” can be found at <http://unstats.un.org/unsd/nationalaccount/AEG/recommendations/flpr.pdf>. It exists already in Spanish and Russian as well as English, and the French version is due shortly.

Descriptions of each of the 44 issues and the clarifications, along with the issues papers for each appear at <http://unstats.un.org/unsd/sna1993/issues.asp>. In addition comments submitted by national statistical

offices and central banks to the UNSD also appear on this part of the web site so that the overall reaction to the proposals is clear to see.

As they are ready, draft chapters will also be placed on the web site and comments will be both welcome and posted in order to preserve the high degree of transparency and documentation achieved so far.