



The Platypus Syndrome

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The platypus syndrome

National accounts have entered a period of secularisation, becoming an ordinary system of economic information, that is however difficult to handle because of the integrated nature of its accounting rules. From that, the difficulty to manage its ability to provide a faithful representation of a changing economic world. All in all, the 2008 updating succeeded in overcoming this challenge.

Facing the pervasive effects of globalisation on their observation tools, national accountants become aware that some central notions of their system, including the production, escape the usual methods of measure. Beyond the improvement of data collection, it seems also necessary to expand the conceptual expertise. Drawing on the experience gained during the 2008 updating, the paper explores some possibilities.

The era of secularisation

The international process of normalisation of the national accounts started following World War II. This process, characterised by the succession of very different versions of norms, culminated in 1993, when, with the explicit introduction of balance sheets, it is possible to consider that national accounts are an actual accounting system. How to adapt the system in a changing environment without modifying its fundamentals, so was the challenge of the 2008 updating.

On the shoulders of giants

What is addressed here is the process of the normalisation of national accounts, as undertaken at the international level. It has however to be noted that, in countries, works and reflexions were also engaged to develop national accounts, sometimes independently of the international movement. For instance, in the USA, the Conference on Research in Income and Wealth has been publishing since 1937 a series of Studies that make up an impressive achievement.

The international normalisation takes place in the economic environment following World War II, characterised by a rapid growth in developed regions, and by a substantial government intervention in the economic life. In economics, it is the time of the elaboration of large macro-economic models, that estimate the parameters of functional relationships between economic variables by applying econometric methods to time series of data compiled within a national accounting framework, so that there is frequently a close connection between the medullisation work and the compilation of the accounts themselves.

In this context, the international normalisation appears sometimes as an adventure led by some individuals and restricted groups, under the sponsorship of international organisations, namely the OECD and the UN.

Richard Stone, who was both an academic and a practitioner is, of course, the great reference of this period, from the 1947 report until the 1968 SNA, issued by the UN.

The publication of the 1993 SNA marks the end of this period. It was designed and drafted by a small group of experts, under the leadership of two prominent figures, coming respectively from the academic and the practitioners' universes.

The 1993 SNA and the secularisation of national accounting

The issuance of the 1993 SNA takes place in a period of great changes in the world in general, and in the economic environment in particular, that is characterised by the increasing globalisation, and the changes in the orientation of economic policies, that make increasingly room to market mechanisms.

For national accounting, it can be said that it is the end of the heroic era. The compilation of the accounts is becoming a kind of industrial process, and is increasingly worldwide spread. Accounts are less requested to provide explanations of the economic movements - in parallel with the decreasing role of macro-economic modelling. They become a major component of the economic information, with the accent shifting to quarterly accounts. Like other statistical data, their dissemination becomes more and more standardised.

As an evidence of the "secularisation" of national accounts, the success of the approach that is adopted by national accounting is demonstrated by the development of satellite accounts, in response to the multiple and diverse demands that are addressed to the system, thus described as "multi-purpose". By the same

time, national accounts become the object of so-called "administrative" applications : reference is made to GDP and/or to its growth to calibrate budgetary projections and various social magnitudes, aggregates are used to calculate financial contributions to international organisations and unions, up to the use of the general government national accounts in the context of the budgetary surveillance, as organised in the euro area.

Updating and revising the SNA: towards democracy ?

It may be said that the heroic era of international normalisation of national accounting has also been an era of "benevolent despotism".

The end of the revision leading to the 1993 SNA instead provides the opportunity of a broad consultative process engaged in view of its approbation, organised by the Inter Secretariat Working Group on National Accounts (ISWGNA). The ISWGNA had been established at the 1983 session of the UN Statistical Commission, and played an active role in the management and the finalisation of the 1993 revision.

The ISWGNA takes the leading role in the implementation of the 1993 SNA. At the same time, the issue of its revision is soon raised. In order to keep the SNA relevant, the ISWGNA takes, in 1999, the option for a continuous updating at shorter intervals, global revisions being postponed at larger intervals to address issues that are liable to affect the system as a whole. An incremental updating mechanism is thus implemented. Furthermore, *SNA news and notes* is launched, and the principle is adopted to establish electronic discussion groups. In 2002, the decision is taken to establish an Advisory expert group (AEG), with the task of advising ISWGNA on methodology issues.

However, facing the limits of the incremental updating mechanism, the ISWGNA expresses the opinion that the changes to the SNA should be more extensively dealt with so as to ensure the integrity and consistency of the System as a whole. In its 2003 session, on the proposal made by the ISWGNA, the Statistical Commission endorses the scope of an updating process which would lead to a 1993 SNA - Rev.1, to be submitted in 2008. The updating takes the form of a comprehensive list of issues, selected on the basis of precise eligibility criteria, to be finalised in 2004. The ISWGNA is responsible for managing and coordinating the process, with the assistance of the Advisory Expert Group on national accounts.

The process implies a broad involvement of the statistical community. Many issues - apart those which are the object of a new review, following their rejection in the 1993 revision - are first deliberated by various expert and city groups, regional meetings and electronic discussion groups. The recommendations of these groups are to be forwarded to the AEG for discussion and decision.

It has to be noted that the reports on the recommendations by the expert groups should provide a single solution to an issue, include the reasons for change, and indicate the paragraphs of the current 1993 SNA to be revised in order to facilitate the deliberation and rewriting process.

As a kind of conclusion, it may be stated that the updating process is designed to be limited, targeted and democratic.

The 2008 SNA updating process: a shirked termination

The current storytelling of the updating process may be found in the faithful minutes of the 6 AEG meetings that were held from end 2004 to end 2008. However, the AEG meeting of March 2007 constitutes an important milestone.

Beginning 2007, the AEG has reviewed the 44 issues and the clarifications that make up the program of the updating. A minority of proposals having been rejected, the AEG expressed recommendations on every issue, and the recommendations were submitted to the international community. The purpose of the meeting was the discussion on some draft chapters of the updated SNA, that had been released for comments in

October 2006.

Better than long explanations, it is worth quoting the minutes of the meeting :

Most AEG members noted an unexpectedly large amount of reordered, new or changed text, and urged the editor to focus on incorporation of the 44 issues and 39 clarifications into the existing SNA as a first priority to complete the remaining chapters in the remaining time.

There has been no more meeting of the AEG prior to the launching of the approval process of the 1993 SNA-Rev.1, renamed as 2008 SNA. Therefore, as a group, the AEG did not give its appreciation either on the 7 remaining chapters of the updated SNA text, or on the new chapters of the then volume 2. A meeting of the AEG was convened at the end of 2008 ; it is not excessive to say that only secondary issues were dealt with then.

The whole text of the 2008 SNA gave rise to a worldwide consultation process, however on a short period. It has to be noted that, then as during the whole updating process, a lot of documentation support has been available, under a clear way, to the public in general on the UN website : that was typically the case for the 44 issues, and the related recommendations. It is however another challenge consisting in submitting, even to a selected public, a full text of some hundred pages (see below).

It is more than likely that the statistical community gave its approval on the whole process of updating, mainly to the substance of the limited list of recommendations.

As far as democracy may be concerned, it is frequently acknowledged that an even imperfect representative democracy is more effective than an apparent direct one.

The updating process and its output: a contrasted assessment

By nature, this section contains some personal views.

On the substance

Viewed in a large perspective, the updating / revision may be summarised in a certain number of issues, and clarifications. None of these issues calls into question the basic features of the 1993 SNA, the accounting structure of which, in particular, remains unchanged.

The AEG, and the countries as well, have been in a position to approve or to reject the proposals of changes that were included in the initial list of issues. For instance, the proposal made to impute a positive value for the net operating surplus of government units, equal to an estimated return on capital, was rejected.

As for the AEG members, the material supporting the presentation of the issues to be examined was, as a whole, sufficient for the understanding of the questions that were underlying.

However, it is not impossible that, ex post, it appears that some issues were considered in a too narrow perspective, and that it is only at the implementation stage that some unanticipated consequences were fully tackled. It may be that, for such topics, a period of experimentation should have been foreseen before final adoption. After all, that was practically, in the 1993 revision, the case for the capitalisation of the expenditures on research and development.

There is a point that should not be underestimated. Individual countries remain completely free to implement, or not, the changes in the international rules of national accounting. It is actual that the statistical offices of some large countries clearly indicate on their website that they do not apply such or such new rule. On the contrary, some, few, countries have taken the ex ante decision to fully apply the new system: that is typically the case for European countries the statisticians of which had, for a long time, decided to respect the world guidelines.

On the form

The 1993 SNA manual has been an excellent achievement. It is written in a clear language, with sufficient repetitions and cross-references between chapters for a reader, such as a compiler, to be able, even when isolated, to understand what is at stake, from a conceptual point of view, in all issues of national accounting. In that sense, such a manual is not only a set of rules, it constitutes also a pedagogical tool.

There was therefore a high challenge in the writing of the 2008 SNA.

The question of the reading of the draft chapters that were presented in 2007-2008 cannot be avoided. The minutes of the AEG meetings make reference to comparison files. However, when the number of changes is substantial, a useful comparison can only be undertaken on a paragraph by paragraph basis. No such tool, which would imply the use of softwares like Excel for instance, has ever been available.

Of course, it was excluded for the editor to have the same constraints as those that were imposed to the reporters of the expert groups, that is to limit the changes to the involved paragraphs. The issue-by-chapter matrix that was elaborated as an information support shows clearly the inter-links of the issues, so the need for a more global approach.

However, the actual concern is also that not few changes were undertaken that did not bear precisely on the issues under consideration in the updating. It is regrettable, in this respect, that the editorial team did not consider that the AEG members, because of their proximity with both compilers and users, were the most competent public whose advice should have been sought.

Some editorial choices are questionable. Two examples:

- chapter 17, called "Cross-cutting and other special issues", that resumes the excellent approach followed in some annexes to the 1993 SNA, is now a chapter that absorbs a lot of changes and specifications that should instead have had their natural location in the relevant chapters; this implies a lot of references between chapters that make the reading uneasy;
- the chapter on the rest of the world account, that was a big and informative chapter in the 1993 manual, is considerably reduced.

Some additional material could have been supplied, for instance on the website, as a support for a better understanding of the changes, in addition to the texts in annex 3, which are necessarily short. Two examples to illustrate this point:

- there is, neither in the main chapters, nor in chapter 26, a full explanation of the changes in the recordings of goods sent abroad for processing ; however, a good presentation had been made at the 2005 meeting of the AEG (SNA M1.05/16), that could be made available under an easy access;
- the capitalisation of expenditures on research and development was adopted by the AEG without any obvious opposition; however, some expressed concerns about the capitalisation of these expenditures when undertaken by non-market producers of the general government; the fact is that it is not clear how - that is by which channels - the benefits derived from the resulting assets accrue to the community ; a paper on this topic could have been, and still is, useful for users.

The 2008 SNA in practice: implementation aspects

When considering the list of the changes, from the 1993 SNA, that is provided in annex 3 of the 2008 manual, one may be impressed by the size of the list: 61 changes are presented and commented.

Fortunately, the list is organised according to the same structure as its equivalent as annex 1 of the 1993 manual. Therefore, one may realise that, under the same headings, the substance of the 2008 changes is far reduced by comparison with the 1993 changes. As expected.

Finally, a rough analysis of the changes may lead to consider 4 categories:

- two changes have a sensitive impact on the level of GDP: the treatment of research and development expenditures and of military durables; the accounts of most countries are liable to be impacted, even if, of course, the magnitude of the impact may vary considerably among countries;
- several changes have a more local impact - output of certain activities or units, government accounts - , or affect only some countries in the main accounts - residence, treatment of pensions;
- many clarifications and refinements, especially with respect to financial instruments, with an unforeseeable, though local, numerical impact;
- changes in relation with the balance of payments and international investment position manual: those changes have provided the opportunity to launch many works and reflexions about the apprehension of the globalisation in the accounts.

However, the impression that a simple observer may draw from the dissemination of the results issued by some advanced countries may be different. In this respect, it is necessary to observe that:

- when a conceptual revision / update is foreseen, most countries postpone the introduction of the estimates resulting from new data sources and methods, and sometimes of the introduction of new classifications, so that the result include both kinds of changes - conceptual and statistical;
- as already said, countries are free to align on the international guidelines, so that it may happen, in the case of some, that they have adopted, in a single package, remaining 1993 treatments and 2008 ones.

Annex: a short comment on the changes

This short annex provides an assessment of the changes that have been introduced in the 2008 SNA. It is based on the list provided in annex 3 " Changes from the 1993 SNA". The codification of the changes comes from this annex.

The changes are subjectively grouped under eight broad categories.

1. Important issues the resolution of which was expected

Capitalisation of R-D expenditures: the issue was rejected in the 1993 revision; many countries have undertaken the compilation of a satellite account for this area; the issue was mature.

C1 (with a strange heading however, probably from the 1993 SNA), D2

Treatment of pensions: the topic was prepared by a lively electronic discussion; the introduction of supplementary tables is welcome.

E15

2. Military assets

Capitalisation of expenditure on weapons systems: there has been a significant opposition to this change inside the AEG. However, the only actual alternative would consist in not including any expenditure on weapons, even as intermediate consumption, in the measure of the output of the military function, or in considering weapon systems as inventory items. Both treatments would considerably decrease the output. It would probably have been a too strong backward change.

D4

3. Technical issues the resolution of which has a limited impact, and other small changes

Measure of the output: FISIM, central bank, insurance, valuation of output for final use

C2, C3, C4, C5, C6

Economic ownership: it is an elaboration of a notion that was introduced in the 1993 SNA, with no apparent impact in the 2008 SNA; it is however an important topic, with potential sensitive consequences

D1

Assets, capital formation and CFC: D6 is particularly welcome

D5, D6, D8, D13

Transactions of the general government

F1, F2, F3, F4, F5, F6, F7, F8, F9

Residence

B3, B4, G1, G2

Classification of units

B1, B2, B5, B7

4. Treatment and definition of financial instruments and other assets

Financial instruments

E1, E2, E3, E4, E5, E6, E7, E8, E9, E10, E11, E12, E13, E14 (the reference to the 1993 SNA is incorrect)

Other assets

D7, D8, D9, D11, D12, D14

5. Sensitive Balance of payments issues

G3, G4

6. Definition of the financial corporations sector

There is a concern with the definition of the financial corporations sector. Whereas the definition of the non-financial corporations sector by reference to their engagement in market production is logical, since their main function refers to production, it would be more relevant to define the financial corporations sector by the fact that they finance. The main account for them is in effect their balance sheet, not their production account. Of course, in financing, they provide services.

In addition, there have been concerns with respect to the classification of some public entities between the government sector and the financial corporations sector: a definition more conceptual than descriptive, or some specifications of the coverage of the latter sector would help in this area; the classification of sovereign wealth funds is also at stake

The systematic allocation of the holding companies to the financial corporations sector raise concerns

B6, B9, B10

7. Classifications relating to non financial assets

The changes in the classification of non financial assets, precisely of fixed assets, are questionable. The classification is now a simple list, without any structuration. The withdrawal of the headings relating to tangible and intangible assets, terms the use of which is familiar in accounting, together with their complete disappearance the SNA text, constitutes a mistake.

Intellectual property assets should have been preferred to IP products - since they are not produced by intellectual property

D3, D15, D16

The changes in the classification of the other changes in the volume of assets represent a loss of understandability of the related flows

D17

8. Changes that could have been avoided

The identification of sub-sectors for the non-profit institutions inside the corporations and the government sector is an inadequate response to a legitimate demand. Sub-sectorising a sector is not an insignificant task. It would have been better to propose the compilation of supplementary tables.

B8

The new treatment of land improvement, together with the identification of costs of ownership transfers on non-produced assets (actually on land) as a category of assets, is, after reflexion, useless

D10

The need of a conceptual expertise

Whereas the 2008 revision, while completing some innovations previously initialised, has incorporated some secondary changes, it appears that it may be more difficult to apprehend some new phenomena, without adapting some basic elements of the system. There the need to expand the conceptual expertise.

Looking back and looking ahead

It is common to state that many demands are addressed to the national accounts. It is also agreed to state that the national accounts constitute a multi-purpose system. It would perhaps be more attractive to refer to it as a nebula. It comes that most of the demands find their place in the periphery of the nebula, in the satellite constructions and complementary analysis.

What is instead at stake here is the only central framework of the SNA, its basic concepts and its accounting structure.

With the release of the 2008 version, the SNA has proved its accounting soundness, and it has reached a certain maturity with the completion of the scope of the intellectual property assets, as achieved through the inclusion of the research related expenditures inside the perimeter of fixed assets. In addition, the productive contribution of these assets has been specified and clarified, so that it becomes familiar to compilers and users.

When, on the other hand, considering the research agenda, the impression is that most of the points it contains can find, if their adoption is felt relevant and feasible, their places in the system as it is. Only two topics could put the accounting framework into question:

- a change in the definition of income: the present definition is fully nested in the basic framework of national accounting, being in particular interlinked with the valuation of assets, so that an integration of a new notion of income into the central framework would imply a complete reconsideration of the latter, including the sequence of accounts;
- the introduction of human capital would lead to reconsider the treatment of the compensation of employees.

What is largely unknown today refers to the manifestations of some strengths and trends which are already present in our environment. The purpose does not consist in anticipating the shape of these manifestations, it is to examine whether we tackle correctly the present underlying strengths and trends. In this respect, there are at least two topics that need to be addressed having in mind the ability to apprehend them through the existing central framework, or if it is necessary to adapt the latter. These two topics are of course:

- the globalisation and its main actors;
- the, or some, relations between the economy and the environment, through transactions of the central framework.

It is clear that these two topics need a conceptual investment.

On the other hand, finance does not seem to be a topic, at least for an exceptional conceptual investigation in national accounting. The national accounts have to show the effects of the increasing role of finance in the economy, and that is what they do, mainly through balance sheets and all accumulation accounts. It would be excessive to imagine that they could have a predictive role in this area.

The leading role of the ISWGNA

It has first to be said that the ISWGNA was right, when assessing the relative failure of the incremental updating mechanism, to opt for an updating approach. It was even probably right when suggesting, in 2003, to finalise the update for 2005, that is at very short delay, if we make abstraction of the fact that many countries, at that time, were still in the process of implementing the 1993 SNA. A short process would have avoided the temptation to make too many formal changes.

The same strategy of updating is reasserted in the research agenda of the 2008 SNA (see §§ A4.5 and A4.6). Therefore, a similar approach may be adopted in the future, as long as the changes do not alter the fundamentals of national accounting.

The success of the 2008 operation, at least in terms of procedure, confirms and justifies the leading role of the ISWGNA in the monitoring of the SNA. There are few things to say about this role. The main task of the ISWGNA is likely to be, for the time being, the follow-up of the implementation of the SNA. However, it is also time to look ahead.

Taking inspiration from the IASB working ?

The International Accounts Standard Board (IASB) plays an international leading role in the standard-setting process for business accounting. To a certain extent, the IASB and the ISWGNA play similar roles as standard-setters in the field of economic information, following an accounting approach.

In this respect, it may be challenging to take inspiration of some features of the functioning of the IASB:

- there are large, open and public consultation processes when standards are under revision;
- most of the standards are well worded, and their presentation is clear, despite the technicality of the matter;
- there are interpretation procedures.

However, the differences are rather important:

- the scope of the national accounts is larger, not limited to the corporations' field;
- when a standard is issued under IFRS, an effective date is set for the standard becoming operative; there is no need of backward calculation, since users are not so interested in time series;
- the audience, on the users' side, of the national accounts is far more diverse than the only investors targeted by the IFRSs;
- the audience, on the side of the producers of the information, is also less homogeneous on the national accounts' side, with far reduced means in comparison with large businesses.

As far as interpretation is concerned, there is actually a need, on the compilers' side, for short notes on some specific topics relating to actual treatments - more limited in scope than handbooks. The wording of such notes is however very time-consuming if targeted for outside.

One can nowadays consult the websites of statistical offices. However, very few offices have the means to have a large dissemination policy on methodologies.

It may be investigated whether the IASB can help in the definition and realisation of questioning large businesses.

Finally, a strength of the IFRS system is worth being quoted, from a conceptual view point. It is the existence of a conceptual framework (see below).

Relations with economics and economists

In a certain sense, national accounts are part of economics, to the extent that they constitute an accounting system based on economic principles, and are used for macroanalysis and economic policy-making. As said in the SNA, "basic concepts [of transactions] are meant to be rooted in economic theory", and the same is true for the valuation of assets.

Despite the fact that the main uses of national accounts have a macroeconomic dimension, the national accountants themselves rather need the contribution of the micro-economic theory, in its most recent developments. The deep understanding of the breakdown of values according to their price and volume dimension, and of the measure of the output of certain industries (banks, insurance) gains benefit to the proximity with theory.

Some countries have organised the intervention of economists in the environment of statistical offices, and of national accounts departments. They usually advise on statistical aspects. However, most of the economists are interested in national accounts as users.

What is rather at stake here is the need of an expertise from economists interested in the descriptive and institutional aspects of the economic life, and in the measure of economic phenomena that are the specific concerns of national accounting. At least, it is possible to quote two examples, in the field of globalisation:

- in May 1995, the title of the CRIW is : *Geography and ownership as bases for economic accounting*
- the bibliographical material of the *Guide to measuring global production* (2015)

Who is in charge of the design of the future of national accounts ?

To this question, an answer may be: certainly not the national accountants, or more precisely, not the national accountants alone.

Reminding that it is the central framework alone that is concerned here, national accountants are responsible for the conceptual and statistical means available to them. For instance, for a rather long period, it has been possible to describe the economic life by considering some types of actors and some types of actions, and in representing their relations in a given framework.

If this description becomes obsolete, it is likely that the observation system shows some failures. However, national accountants need the support of some external vision in order to adapt, or to change, their accounting representation and, possibly, their statistical tools. Thus the needs for economists' contribution.

The place of the Advisory Expert Group

The decision consisting in maintaining the existence of the Advisory Expert Group (AEG) aside the ISWGNA, is a right decision.

The AEG has had two roles:

- as a representative of the national accounts units in the countries, being thus able to advise the IASWG on the questions relating to the opportunity and feasibility of changes, the timing of implementation, the priorities to establish;
- as an expert group on conceptual issues.

Because of the first role, the AEG is mainly composed of the heads of the national accounts services. However, there is also a need of an increased conceptual expertise. This means that the second role of the AEG has to be increased, which does not preclude on its composition.

There is a need of an increased conceptual expertise for three reasons:

- because the list of the topics that are on the research agenda is already long;
- because, as said above, there will probably be a need to adapt the accounting framework;
- because there is, fortunately, an increasing work that is undertaken in various task-forces, expert groups and other fora, on many topics.

It is worth considering this last case. The size of the outputs of national accounting has considerably increased, at least since the 1993 revision. The simple frequency of accounts has sped up, too. This creates the need for the staff members to compare their sources, their methods and their results, which also meets the wish of international organisations, in charge of the collection and dissemination of data, to harmonise the results. This leads to a creative boiling, but there is also a risk of scattering.

It is tautological to say that it is important that exchanges be organised between practitioners and conceptualists / methodologists. However, it is all the more necessary to reaffirm this wish that practitioners themselves ask for a conceptual support. It is even the case for the authors of *The impact of globalization on national accounts* (UN-Geneva 2011) to call for a conceptual deepening in order to tackle the challenges raised by the globalisation.

If it was decided that the AEG has to play a more conceptual role, it could crystallise around its presence a community of "conceptual workers". For the time being, the main conceptual forces are concentrated in some international organisations. Some large countries, and some regional organisations may also devote some staff and / or time to a conceptual task. Other people are spread over the countries, and may feel isolated. There is thus a need for fora.

It is true that the experience of the electronic discussion groups in the 2000s has been deceptive, whereas it is time-consuming for the organisers. On the other hand, some other discussion groups have been successful - accrual accounting of interest, pensions, for instance -, so that the outcome is not so negative. And this is also the case for "SNA news and notes", in which there were some good papers, focusing on central issues of national accounting (interest, too, and patents, e.g.). Eurostat also has launched a review, called *Eurona*.

To give a better visibility to the leading conceptual role of the AEG, it may be wise for it to have a chairperson.

Two alternative approaches of updating

There are basically two categories of changes in an updating process: the changes that have a local impact, and the changes that have repercussions in more parts of the system. As far as the second category is concerned, the experience of the 2008 updating has shown that two approaches are possible.

The experimentation approach

It has been de facto the case for the capitalisation of research and development expenditures. This treatment was rejected in the 1993 revision. Instead, the issue was on the research agenda, with a strong recommendation to compile satellite accounts.

It is not sure that many countries that did not compile such accounts have been stimulated to do so because of the recommendation. However, in countries where such accounts were already compiled, one can say that some additional work has been engaged. In addition, compilers began to investigate some complementary aspects of the compilation, that is the breakdown of the value of the resulting assets into price and volume components, on the one hand, and the amortisation of the assets, on the other hand. Several of the resulting studies have been presented on international fora. However, it is not sure that the international trade in research assets had been the objects of many publications.

At the same time, as other intangibles, including, in particular, software, had, in 1993, been included under

the asset boundary, compilers had become familiar with the transactions involving software, and with the complex recordings that may affect the services provided by software. There were task-forces on the topic. All this work led to the clarifications introduced under the heading "originals and copies" in the 2008 SNA.

There had also been the fact that the borderline between some software and research was so thin that it became increasingly clear that the non capitalisation of research was an anomaly.

Therefore, the topic was mature at the start of the revision.

The "why not ?" approach

The opposite approach relates to the issue dealing with "goods sent abroad for processing" - that has to be associated to the issue of merchanting.

The issue was presented as a Balance of payments one. However, when the topic was dealt with in 2005 at the AEG, the working document underlines clearly that the topic is also - may be over all - an issue relating to production.

The adoption of the change led to the meeting of many task-forces for its implementation.

However, the most important feature is that it stimulated a lot of reflexions, research and works about the globalisation, that have culminated into the publication of the manual on the "*Impact of globalization on national accounts*", and on the "*Guide to measuring global production*".

Sketch of a conceptual framework for national accounting

It is proposed to undertake the writing of a conceptual framework for - or of - national accounting, the idea of which finds its inspiration in the existence of such frameworks elaborated by business standard-setters. The example followed is the *Framework for the preparation and presentation of financial statements*, issued by the IASB.

The principle of this conceptual framework

The purpose is to concentrate into a single short document (about 50 pages) the fundamental concepts of the national accounts central framework.

Most of the components of this framework may be found in the chapters of the SNA, mainly in chapters 2 and 3. However, as chapter 3 is designed, it also includes some accounting rules that belong rather to the domain of standards - to use the terminology of business accounting.

The particularity of the framework consists also in focusing on the main components of the system of accounts and on their articulation, while chapter 3 is more descriptive, less explanatory, and goes in detail.

In addition, it is relevant to expose the economic principles that underlie national accounting. Some of them are sketched in chapter 1, but they should deserve being developed. At stake, in particular, is the rationale of the choice for the market valuation of assets.

It has to be a collective work.

Usefulness of this framework

All preparers of business accounts take a keen interest in referring to the framework of their respective accounting standards. The same enthusiasm is expected from national accountants.

It may look strange, when the statistical community seems to be particularly puzzled by some failure of their usual statistical sources to be able to apprehend the life of the present economic world, to suggest to focus on a purely conceptual exercise. The time instead seems to be in favour of an increased pragmatism.

However, as long as national accounts are deemed to present a certain social usefulness, their particularity, by contrast with specialised statistics, is to consist of a set of interrelated data. The risk of purely pragmatic approaches is to result in inconsistencies. In this context, it is even more necessary to get a deep understanding of the basic principles of national accounting. Pragmatism may, legitimately, lead to adopt some choices that do not follow what the basic concepts would recommend. In this very case, it is even more useful to perfectly know what should be theoretically done, in order to deviate knowingly. In effect, the worse in those situations is to try to build the theory of one's practice or, worse, of one's mistakes.

Furthermore, if the accounting framework of national accounts has to evolve, it would be pedagogical that all people involved have a clear consciousness of the impact of local changes on the whole system. A framework may provide a better view for this purpose.

Finally, leading to a deeper understanding of national accounting, the existence of a framework would allow a better understanding of its differences with business accounting, and also with other accounting systems, such as public accounting.

Being designed after many standards had been elaborated, business conceptual frameworks may include some principles that are partly in contradiction with some of the existing standards. This is judged admissible. It is proposed to do the same here, if necessary.

The sketch of a possible conceptual framework

This sketch starts from the organisation of the IASB 's conceptual framework, as it stands now.

Introduction

One of the purpose of the introduction is to explain who are the users of national accounts, and to determine their needs. It is understandable that this is an hard task in the case of national accounts. It is proposed to focus on the needs of the only central framework.

1. The objectives

This chapter presents the main accounts of the system, and describes their purpose.

It is not very simple. It seems that it would be relevant here to have a presentation of the economic principles that underlie national accounting, since it is only these principles that can justify the existence of the other changes in assets accounts, that constitutes the specific difference between national accounting and business accounting.

2. The institutional units and sectors

The IASB's framework deals here with the reporting entity. It seems logical to present the national accounts main unit, and also to present its declination according to the various sectors.

3. Qualitative characteristics

It seems logical to present here the quality framework of statistics, in general.

4. Underlying assumptions

This chapter no longer exists in the IASB framework. In the former framework, it contains two items: the accrual basis, and a reference to the notion of going concern. It seems necessary to deal somewhere with the principle of the accrual basis of accounting.

5. The elements

In the IASB's framework, the elements are limited to: assets, liabilities and equity, on one side; income and expenses on the other side. The strength is that the definition of the latter ones derives fully from the definition of the former ones. This approach is sometimes referred to as to correspond to "the primacy of assets" view.

Even if it is not the usual way of presentation of national accounts, that better starts from flows ¹, it is suggested to follow the same design.

Because of the complexity of the classifications in the SNA, the design of this chapter needs some elaboration. For the balance sheet items, things are easy. However, the logic of the business accounting framework would lead to retain only the three origins of the changes in net worth (saving, other volume changes, and holding gains).

There are two difficulties in this respect:

- income is not introduced - implicitly, it is defined as saving plus final consumption expenditure

1. However, by difference with the 1993 version, the title of chapter 3 is : "stocks, flows and accounting rules".

(forgetting D.8), which would need to introduce two categories of current expenditures

- it seems a bit short, even if it corresponds to the reality of the national accounts accounting framework, not to differentiate according sectors

6. The recognition of the elements

In business accounting, this is rather elaborated. In national accounts, instead, it consists mainly in conventions.

7. Measurement of the elements

Specify that assets and liabilities are valued at market prices.

8. (no object)

Missing pieces

There are, at least, three missing pieces in the above sketch.

First, there is no reference to the price and volume measures

Second, the operations of the SNA production account, and their time of recording, cannot be introduced in the canvas of business accounting, simply because business accounting, according to international guidelines, does not recognise output. In addition, in order to introduce the production concept, it is also necessary to introduce the establishment as a unit.

There also needs a reference to the notion of economic ownership.

A case study: goods sent abroad for processing

The purpose of the case study is not to put in question the treatment that has been adopted in the 2008 SNA. It is to examine if, given the implications of this treatment in the other parts of the SNA, another strategy could not have been taken. Clearly, the issue could have been the purpose of an experiment.

Is examined the 2008 SNA treatment of "goods sent abroad for processing", by comparison with the 1993 SNA treatment. Under scrutiny are the explanations and rationales provided for the change.

Reference is made to the paper presented at the 3rd meeting of the AEG (July 18-25 2005) - SNA/M1.05/16

Preliminary

Are let aside in this case study:

- the questions relating to the practical implementation of both treatments, since both raise concerns in this respect
- the questions referring to the case where the goods do not return back to the original economy
- the questions relating to the merits of the portrays given by trade statistics in the respective cases

Summary of the AEG paper

The AEG paper presents the issue as a choice between:

- the imputation of a change of ownership of the goods sent abroad (1993 SNA),
- and the non imputation of a change of ownership (solution finally adopted under 2008 SNA)

The paper indicates that the choice of a non imputation for the goods sent abroad would imply consistent changes to be made in the production accounts of the (domestic) economy, and in the IOTs.

As in many references, use will be made in this case-study of the terms principal for the original owner of the goods - in the domestic economy, and contractor for the unit that carries out the processing activity - abroad.

Does the case actually represent an issue of ownership ?

The answer is not clear-cut.

At least, according to the assumptions that are usually made in this case, the legal ownership of the goods is still the principal.

The full treatment according to the 1999 SNA has to be completely outlined:

- the goods leave the inventories of the principal, and enter into the inventories of the contractor ;
- at the same time, the contractor incurs a liability towards the principal.

The incurrence of the liability is not only recorded in the financial accounts. The resulting liability is also recorded in the balance sheet of the contractor - and as an asset for the principal.

Therefore, the contractor holds the goods as assets under inventories, and has a liability of the same value, towards the principal. This liability represents the obligation made to the contractor to send the goods back to the principal after processing. However, the value of the liability is limited to the value of the goods before processing.

At this stage, it is better not to imagine a change in the prices of the finished goods, because this would

complicate the description. Moreover, it is not sure that the price of the goods, at this stage of production, should reflect the changes in the prices of the already finished goods. Only inventories of finished goods should incorporate these changes in prices.

As a consequence, if one may conclude that there is a change of ownership under 1993 SNA, this change is limited by the existence of a liability.

Is it legitimate to record a change of ownership ?

The answer made in the 2008 SNA is clearly negative.

However, it seems that, at least in the balance of payments preparatory documentation (Issues paper (Bopteg) - 14B; May 2004), only the legal aspects of ownership are dealt with.

In the context of the economic ownership concept, things are not so clear-cut. What happens for instance if the goods sent for processing are destroyed following an accident ? It is likely that it is the contractor who bears the costs.

On this specific point, it has to be noted that, in a situation that is similar to processing abroad, § 14.59 of the 1993 SNA justifies the imputation of a change of ownership by analogy with financial leasing, which is considered to be the typical case of economic ownership, as opposed to legal ownership.

The fact is that, as long as the goods are not finished, they are simply pieces of inventories. They are different from the goods that they will become, once finished. This means that all the benefits that can be expected from the sale of the finished goods are irrelevant at this stage. In other words, the balance of the risks and rewards has to be assessed on the goods as pieces of inventories - if, however, it has to be assessed.

The relevant approach has to be made as a production issue

The 1993 SNA text about goods for processing is far from being simplistic. It tackles the issue in terms of products, not only in terms of ownership :

In these circumstances, the goods originally sent abroad lose their identity by being transformed or incorporated into other goods. Similarly, the goods received back are essentially new goods produced abroad (14.61)

The purpose of the 1993 treatment is to reproduce abroad the picture of the production process that has to be recorded, in the 1993 context, when the processing occurs within two establishments of the same enterprise. In the case of processing abroad, it is however necessary to record a transfer of ownership, balanced by the recording of a liability, because two institutional units are involved, and not two establishments. It has to be added, however, that, logically, such a transfer of ownership should also be recorded when the processing arrangement occurs within two different domestic enterprises, which is probably not made in practice.

This approach in terms of production is also the one that is adopted in the AEG paper (§ 3):

This means that [...] production on own behalf and on behalf of a non-resident unit are portrayed in the same way and the pattern of inputs and outputs is similar. This stemmed in the past from a desire to focus on the production process in terms of technological coefficients since changes in technology was seen to be the main driver of economic change. It can be argued now that with the advent of globalisation, the focus of attention has shifted and a portrayal of production taking account of the fragmentation of processes across countries might be more appropriate.

Conclusion

The issue of goods for processing was rather an issue relating to production, that is a SNA issue, than a balance of payments issue.

Would have it been preferable, before implementing the no imputation treatment abroad, to completely work out the treatment suggested in § 3 of the AEG paper, in order to achieve a completely harmonised treatment in the domestic economy and abroad ?

Or was it better to start with the treatment abroad only ?, in order to stimulate the discussion.

Ownership - anecdotal illustration

For simplicity, let assume that a car owned by a household is an asset (a fixed asset).

The owner of a car brings this car to a garage, for a repair to be undertaken. He leaves the car for a certain time - some days.

Question: during the time of the repair, who is the economic owner of the car ?

What are the benefits / rewards, and risks, for the household ?

the household enjoys no economic benefit from the car, during the time of the repair

the household takes no benefit in the form of transport services

let assume that the car is close to be a valuable, and suppose that there is an auction on this type of car during the time of the repair: as the car is not available immediately, the household does not take part in the auction, and does not benefit from any gain on its sale as a valuable

at the same time, there is no risk for the household (see below)

What are the risks and rewards for the garage owner ?

the only benefit expected for the garage owner is the payment for a service (a fee)

the garage owner takes no benefit from the possible changes in the price of the car during the repair

however, the risk for the garage is, for instance, the risk of a fire in the garage that would result in the destruction of the car, because, in such circumstances, it is the insurance of the garage that bears the costs

There are therefore good reasons to conclude that the garage is the economic owner of the car. However, the point is that the car is even not a car during the repair, it is anyway no longer a fixed asset for the household. In fact, it is an inventory item for the garage. Note that the possible ownership by the garage is limited by a, necessary, imputation of a liability of the garage.

Of course, national accounts conventions do not work like that.



The platypus syndrome

Why ?

A platypus, whose greco-latine name is far more pleasant (*Ornithorhynchus anatinus*), lives in Australia. It belongs to a group of animals who is unique, by its characteristics, among a larger specie.

I thought about this nice animal when, reading for the first time the classifications of transactions in the 2008 SNA, I discovered that, after the group, coded P, of *Transactions in products*, the group, coded NP, with a single position: *Transactions in non-produced assets*. It occurs that a classification with one position is something very rare.

Previously, this position was incorporated in a group - *Other accumulation entries* - that was, admittedly, very heterogeneous, since it included 2 transactions, and 10 other flows. The other transaction - *Consumption of fixed capital* - has joined the group of transactions in products, where it is not alone, and which looks more appropriate.

The rest of the group is logically named *Entries in the other changes in assets account*.