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Statistical Office

Santiago, Chile, 30 October to 10 November 1967

THE PROGRAMME FOR THE REVISION OF THE UNITED NATIONS
SYSTEM OF NATIONAL ACCOUNTS AND ITS
DISCUSSION IN LATIN AMERICA

Prepared by the ECLA secretariat

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that this is crucial for ensuring the integrity of the financial system and for providing a clear audit trail.

2. The second part of the document outlines the specific procedures for recording transactions. It details the steps involved in the accounting process, from the initial entry of data into the system to the final reconciliation of accounts.

3. The third part of the document discusses the role of the accounting department in the overall management of the organization. It highlights the importance of providing timely and accurate financial information to management for decision-making purposes.

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A. INTRODUCTION

In view of the need to extend the coverage of the system of national accounts recommended by the United Nations and published for the first time in 1953, the Secretary-General of the United Nations convened an Expert Group in 1964 to work on the problem. The purpose of the meeting was to formulate proposals for the extension and revision of the system, so as to provide a full detailed treatment of flows and stocks in an economy.

The views expressed at the meeting are contained in document E/CN.3/320, entitled A system of national accounts (Proposals for the revision of SNA).

These proposals were discussed at meetings held throughout the world.

Subsequently, the Statistical Office of the United Nations prepared two further studies on this subject, the second of which (E/CN.3/356) will be the basic document for the present meeting.

Section B of this report contains a brief summary of the evolution of the programmes for the revision of SNA, and section C analyses the treatment accorded to the suggestions made by the Latin American working group which met to discuss this question in Santiago, Chile, from 8 to 17 November 1965.

B. THE PROGRAMME FOR THE REVISION OF THE SYSTEM OF NATIONAL ACCOUNTS

1. The original system

In the first edition of the system of national accounts and supporting tables published by the Statistical Office of the United Nations in 1952,^{1/} reference was made to more detailed systems which might eventually be integrated within the framework of that system.

The second edition (1959)^{2/} contained only minor revisions, although once again mention was made of the possibility of extending the system to

1/ A System of National Accounts and Supporting Tables (ST/STAT/Ser.F/2).

2/ Ibid. (ST/STAT/Ser.F/2/Rev.1).

include flow-of-funds and input-output tables and, eventually, national balance sheets. It was pointed out in that edition that many national statistical offices had begun to work along those lines.

It was also stated that such extensions would inevitably involve some important revisions in the existing system. These concepts were repeated in the third edition (1964),^{3/} which also introduced a number of minor amendments to the previous texts.

2. Proposals for the revision of the SNA
contained in document E/CN.3/320

In December 1964 an Expert Group was convened by the Secretary-General of the United Nations to make proposals for the extension and revision of the SNA so as to provide a full and detailed treatment of flows and stocks in an economy. The report drawn up by this Group was entitled A system of national accounts (Proposals for the revision of SNA) (E/CN.3/320).

The main objectives underlying the proposals contained in this document can be summarized as follows:

- (a) To set out an integrated and sufficiently detailed system of national accounts which will serve as a basis for meeting national needs and for purposes of international comparisons;
- (b) To help promote an integrated programme of basic statistics;
- (c) To incorporate in the national accounts input-output and flow-of-funds tables, national and sectoral balance sheets and information on constant prices, with a view to increasing the number of analytical instruments required for economic planning;
- (d) To include basic data on personal income distribution, regional accounts and other analytical schemes;
- (e) To make provision for the future incorporation in the integrated system of certain demographic and social aspects.

The report is divided into two main parts, the first devoted to conceptual problems and the second to a set of standard accounts and tables and their classifications and definitions.

3/ Ibid. (ST/STAT/Serv.F/2/Rev.2).

The first part starts from the national accounts which connect the main flows in an economic system and shows how these flows are related to the assets and liabilities, as they would appear on a national balance sheet. It then takes each of the accounts and classified the stocks and flows that appear in them. Finally, it presents a structure of accounts and balance sheets designed to show the relationships between magnitudes which are important in studying an economic system.

The second part of the report starts with the conceptual system and reduces it to a set of standard accounts, together with a series of supplementary tables which provide additional information about important entries in the accounts. The standard accounts are divided into three classes: the first consists of the consolidated national accounts for the whole system; the second of the real accounts; which cover the different branches of activity, the sources and uses of products, the output and input structure of the industries in which they are produced and capital formation in those industries; and the third of the financial accounts. For each institutional sector, the accounts show gross fixed investment, changes in stocks, savings, depreciation and the variations resulting from the use of the different financial securities. The supplementary tables are related to the standard accounts and provide a detailed classification of their principal components.

The proposals made in the document were tentative. Further work was needed to classify the economic units and transactions, and it became necessary to examine the definitions of certain concepts included in the system. At the same time, it was recognized that, while the system provided suitable goals for national accounting and statistical advancement in the developing countries, it needed to be accommodated to their present stage of economic and statistical development.

This document was considered at meetings held in 1965 and 1966 in Africa, Latin America, Asia and Europe, at which the proposed structure, definitions and classifications and standard accounts and tables were discussed. The working groups which met in Africa, Latin America and Asia also discussed the adaptation of the integrated system to the particular needs and circumstances of the countries in each of those regions, together with the proposals for adapting it to the developing countries.

The Latin American Working Group on National Accounts met at Santiago, Chile, from 8 to 17 November 1965, under the joint sponsorship of the Economic Commission for Latin America (ECLA) and the United Nations Statistical Office, with the co-operation of the Bureau of Technical Assistance Operations. The meeting was attended by representatives of thirteen countries. The participants considered the report of the Expert Group (E/CN.3/320), a paper prepared by the United Nations Statistical Office setting forth specific proposals for adapting the bases formulated by that group to circumstances in Latin America,^{4/} and a document prepared by the secretariat of ECLA containing suggestions supplementing the proposals for revision of the SNA in the light of the economic analysis requirements of the Latin American countries.^{5/} ECLA also presented a reference paper on experience in national accounts statistics in Latin America and its principal problems.

In the course of the discussions, the participants stressed the requirements in the field of national accounts resulting from the advances in economic and social analysis, especially in relation to planning activities. They supported the efforts being made to improve the system and expressed particular concern regarding its adaptation to actual conditions in Latin America.

As regards the proposals for revision of the SNA, the discussions focussed mainly on accounting at constant prices. A chapter of document E/CN.3/320 is devoted to a comparison of production accounts over time. This document sustains the basic view that deflation of flows is restricted to a specific group of products, and therefore rejects the idea of establishing a fully integrated system of accounts. However, the Statistical Office, recognizing the importance of this problem, announced that it was engaged in amplifying and establishing concepts and definitions for aggregates expressed in terms of constant prices.

^{4/} Adaptation of the proposed revised SNA for Latin American countries (ST/ECLA/Conf.22/L.2).

^{5/} Suggestions supplementary to the proposals for revision of the SNA in the light of the economic analysis requirements of the Latin American countries (ST/ECLA/Conf.22/L.4).

Comments were also made concerning the treatment of production activities of governments, household units and non-profit institutions, the definition of production limits, accounting and specific classification problems, in particular where government activity is on a large scale.

3. Proposals for the revision of the SNA contained
in document E/CN.3/345

Following the above regional consultations, which were supplemented by other meetings on specific aspects of the system under the sponsorship of the Conference of European Statisticians, the Statistical Office prepared an additional document entitled Proposals for revising the SNA, 1952 (E/CN.3/345). It includes most of the conclusions reached in discussing document E/CN.3/320, but omits some of the problems raised earlier, such as accounting at constant prices, input-output analysis and regional accounting. Special attention is given to defining the units of the proposed system, as well as to the nature of the transactions entered in the accounts, and detailed schemes for SNA classifications are included.

The over-all objectives of the programmes for the revision of SNA set forth in the original document are basically the same. A scheme is presented for detailed treatment of the stocks and flows in the economy, as a basis not only for the integration of the statistical system but also for compilation of the national accounts, input-output tables, statements of sources and uses of funds, and national balance-sheets. The structure of the proposed system is essentially the same as the previous scheme. It is based on the national accounts which connect the main flows in an economic system and shows how these flows are related to the assets and liabilities of the different groups of units shown in the national balance-sheet or in sectoral balance-sheets.

One innovation in this document is a chapter dealing with the adaptation of the new integrated system to the developing countries. A number of special accounts and supplementary tables, as well as the corresponding provisional classifications, are proposed for the purpose. The chapter is based on two main considerations. Firstly, the present state of the developing economies is such that in many cases the criterion adopted in

/the standard

the standard international classifications prevents them from adequately reflecting the particular conditions in each of the countries concerned. For the solution of problems connected with the technology, location, size or legal system of enterprises, different classifications from those used in the general system are proposed. Primarily, they distinguish traditional from modern forms of production and differentiate activities controlled by the public sector from those controlled by the private sector.

In terms of these classifications, special accounts are included for sectors of activity which are of special or key importance for these economies, for particular parts of the country or for the public sector. Secondly, it is recognized that in view of the present situation with regards to statistical data, the complete system cannot be expected to be put into practice rapidly, particularly in the developing countries. Thus, it is considered advisable to establish priorities in preparing the various tables and accounts, so as to ensure an orderly development of the statistical and accounting systems.

It should be borne in mind that the objective of the revision programme is to devise a system whose general characteristics will be common to all countries. However, it is for each country to make the final choice of suitable classifications. The system should be adapted to the developing countries by establishing a clear-cut relationship between the concepts and definitions used in those countries and those of the complete system.

This document was presented at the fourteenth session of the Statistical Commission, and was also discussed by the Conference of European Statisticians and the Expert Group convened by the Secretary-General of the United Nations. The International Association for Research in Income and Wealth and the National Bureau of Economic Research also organized special meetings to discuss it.

4. Proposals for the revision of the SNA contained
in document E/CN.3/356

Document E/CN.3/356, which will serve as a basis for discussion of the revised system of national accounts at the present meeting of the Working Group, is the third paper prepared by the United Nations Statistical Office on this programme. It presents a complete and detailed description of the proposals for amplifying and revising the system of national accounts recommended by the United Nations in 1952, except as regards problems relating to national and sectoral balance sheets. It devotes special attention to the use of the SNA as a basis for price and quantity comparisons and input-output analysis. The document also dwells extensively on the adaptation of the SNA to the particular circumstances in developing countries.

C. SUGGESTIONS PUT FORWARD BY THE 1965 WORKING GROUP ^{6/}
AND DISCUSSED IN DOCUMENT E/CN.3/356

At the meeting of the Latin American Working Group on National Accounts (Santiago, Chile, 8 to 17 November 1965), a number of suggestions were put forward in connexion with the proposals for the revision of SNA contained in document E/CN.3/320. The pertinent recommendations adopted in document E/CN.3/356 are discussed below.

The suggestions made at the 1965 meeting related to the aims and basic structure of the programme of revision, production, consumption, expenditure and capital formation accounts, capital finance accounts, consolidated accounts for the economy as a whole, special sector tables and accounts and priorities in compilation.

1. Objectives and basic structure of the
programme of revision

The participants in the Working Group, while recognizing the useful advance represented by the new proposals, stressed the growing needs in Latin America in the field of national accounts. Economic and social development planning efforts made it necessary for particular consideration

6/ See Report of the Working Group on National Accounts (E/CN.12/740).

to be given to the problems of accounting at constant prices and of regional accounting. Attention was drawn to the need for integrated conceptual systems relating to flows at constant prices, and it was suggested that a system of consolidated accounts should be built up in the same way as the accounts at current prices. Details of these accounts are presented in the above-mentioned report of the Working Group (E/CN.12/740).

In the new text of the proposals for the revision of SNA, a special chapter is devoted to the question of price and quantity comparisons.

No integrated system of accounts at constant prices is presented. The main reason for that approach is the impossibility of breaking down income and saving flows by price and quantity components which are of uniform weight. The various indicators that can be used for the measurement of goods and services aggregates are reviewed in detail, and problems arising in the practical application of these recommendations are also discussed.

The proposed tables at constant prices show the value of the gross domestic product by types of expenditure and branches of economic activity: supply and use of commodities; outputs and inputs of enterprises; general government final consumption expenditure and final consumption expenditure of private non-profit institutions serving households, by purpose; composition of final consumption expenditure of households; and composition of gross domestic capital formation.

2. Production, consumption expenditure and capital formation accounts

(a) Concept of production

In view of the special problems of the developing countries, it seemed desirable to broaden the concept of production as defined in the existing recommendations.^{7/} It was suggested that this concept should be expanded to include all the processing done by primary producers and similar to that effected by goods-producing enterprises, and generally forming the basis of transactions in a monetary economy. In the new proposals the production

^{7/} See: A System of National Accounts and Supporting Tables, op. cit.

/boundary is

boundary is so drawn as to include all the productive activities of enterprises, general government and non-profit institutions domiciled in the country. Since households are not treated as producer units in SNA, the only part of their activities included within the production boundary will be that consisting in the supply of goods and services, for which a production account is established. Those activities are the production of characteristic agricultural, forestry, hunting, fishing, quarrying and mining products for consumption by the households themselves. Household activities of any other type - except, of course, own-account construction, provision of housing services and domestic service - even if similar to services by enterprises and normally based on market transactions, will be excluded from the concept of production on the grounds that they are not as essential for subsistence as primary production, and that it is very difficult to measure them. In some instances, however, the processing of primary commodities by farmers should be included, even if the goods are not sold on the market, as, for example, the production of butter, cheese, flour, wine, oil, etc., for consumption by the farmer's own household.

(b) Recording of activities of general government, household units (domestic service) and private non-profit institutions serving households in the production, consumption expenditure and capital formation accounts

As no satisfactory formula for registering these activities was presented in document E/CN.3/320, the members of the Latin American Working Group pointed out the desirability of treating general government, private non-profit institutions and persons providing domestic services as productive units providing services, and, in the first two cases, as final units consuming, on behalf of the community, most of the services produced. In document E/CN.3/356 persons providing domestic services are considered as productive units providing services, and are accorded the same treatment as other enterprises. The treatment of general government activities and those of private non-profit institutions serving households is explained in full detail, and broadly coincides with the view expressed by the members of the Latin American Working Group.

/(c) Treatment

(c) Treatment of services rendered by banks and similar financial institutions in the production and consumption expenditure accounts

In the proposals submitted to the Working Group it was suggested that the banking imputation should be eliminated, which might mean that a negative figure would appear under the head of operational surplus of banks and similar financial institutions. This suggestion was not endorsed by the members of the Group, who recognized the practical difficulties of the system in force, but urged that it should be maintained. The new proposals are also in favour of the existing system, with a slight amendment. The service charges imputed are considered as intermediate consumption of a nominal enterprise, and are not imputed to the production accounts of the various branches of activity. The operational surplus of this nominal enterprise will be negative and equivalent to its intermediate consumption. In the income and expenditure accounts, the enterprise is classified as a financial institution.

(d) Valuation of general government services

In the production accounts, services provided by the various component units of the general government sector are valued at their explicit cost. Hence no operating surplus is included, i.e., no imputations are made for the use of government-owned buildings. Services for government-owned housing will be entered under the head of real estate, and will be imputed to public enterprises. This treatment implies a modification of the principle now in force, and on this point no consensus was reached at the meeting of the Working Group.

(e) Treatment of gross capital formation

The members of the Latin American Working Group called for clearer definitions of capital formation, particularly those relating to unfinished and phased building works. The solution adopted in document E/CN.3/356 is to regard this type of goods as part of the stock of fixed assets at the time when transfer of ownership is recorded and/or the goods are ready for use. It is recommended that construction work that is under way should invariably be considered as an asset of the producer of the work. Expenditure on this is shown separately in the classification of "Increase in inventories", as recommended in the course of the discussions.

/In dealing

In dealing with own-account construction work, which was also discussed without reaching a consensus of opinion, document E/CN.3/320 distinguishes between the more important activities, which should be included under construction, and those of minor importance, which were usually considered as secondary production in the respective branches of activity in which the establishment was classified. It is now proposed to enter under the head of construction any own-account construction activities which are carried on by a separate establishment. A broader criterion has, in fact, been adopted.

Expenditure on the development of plantations, reafforestation, and the construction of galleries in mines, etc. will normally be considered as fixed capital formation expenditure until it becomes productive. From then on, with a few major exceptions, it will be considered as intermediate consumption expenditure. The Latin American Working Group suggested that, during the first stage of the revision, it should be regarded as an increase in inventories rather than as fixed capital formation.

(f) Presentation of the supporting tables of the SNA

A number of amendments have been proposed to these tables. Document E/CN.3/356 suggests that columns giving the value of production and intermediate consumption should be included in the tables on the gross domestic product and factor income by branch of economic activity. The suggestion that the tables on gross capital formation should include a detailed presentation of purchasers by institutional sectors and of goods by domestic or foreign origin, has not been taken up. Unlike document E/CN.3/320, document E/CN.3/356 reflects the consensus of opinion in the Working Group in providing for a table itemizing transactions with the rest of the world. Tables on the production and inputs of public and private industries have not been incorporated in the new proposals; they remain unchanged in this respect and their approach is not shared by the Working Group.

3. Accounts of the financing of capital formation

The Latin American Working Group made an extensive examination of the capital financing accounts of different units suggested certain modifications and urged greater precision in defining some concepts. The methods of classification and presentation used for these accounts have been completely overhauled in the new proposals, which give more detailed coverage to various units and their operations. For instance, the new method of presenting the accounts of social security institutions solves the problem raised in the Working Group. Enterprises are classified according to the type of economic activity pursued by their principal establishments, and a distinction continues to be made between current and capital transfers, as in the present system. This distinction was considered to be essential by the Working Group. The recommendations for supplementary tables showing financial transactions with the rest of the world have not been accepted, but the new form of presentation for the account on transactions with the rest of the world solves most of the problems raised by those recommendations.

4. Consolidated national accounts, and accounts and tables for special segments of the economy

Suggestions were put forward concerning the presentation of the consolidated accounts, and the coverage of special segments and concerning the kind of relevant information to be provided.

(a) Consolidated national accounts

Domestic factor income, and residents' income from domestic factors of production, which are grouped together in document E/CN.3/320, have been sub-divided into compensation of employees and operational surplus, as suggested by the Working Group. The new presentation of these accounts does not sub-divide savings in the account on disposable income and its utilization nor does it include an item on national income at factor cost.

(b) Accounts and tables relating to special segments of the economy

The proposals made in document E/CN.3/320 do not envisage the adaptation of the SNA to meet the needs of the developing countries, although the Working Group agreed that they should be adapted. The United Nations

/Statistical Office

Statistical Office submitted a paper to the Working Group on the adaptation of the SNA, which was supplemented by suggestions from the ECLA secretariat. The suggestions were accepted by the Working Group, which also proposed that the accounts for special segments should be broadened to cover, in addition to the traditional rural sector and a key segment, the public and private, traditional and modern, urban and rural sectors, etc. One of the chapters of document E/CN.3/356 is devoted to the adaptation of the complete system to the needs of the developing countries on the lines of the previous proposal. It also envisages supplementary systems for basic sectors of the economy, special areas and the public sector.

5. Priorities in the compilation of
accounts and tables

The new proposals echo the suggestion contained in the earlier document for an order of priority in the compilation of accounts and tables. Four classifications have been suggested for the developing countries. The first consists of the consolidated national accounts and the main aggregated indicators of the operation of the economy. The detailed classification of priorities is to be found in annex II to chapter IX on the adaptation of the SNA to the developing countries (document E/CN.3/356). The members of the Working Group proposed two orders of priority, the first to be determined by the urgency of needs for economic analysis and the availability of basic statistics, and the second to be used for the remaining accounts and tables. It had also been suggested that criteria should be laid down for a time-table to be followed in presenting the different SNA accounts and tables. This question will be discussed in chapter VIII of the new proposals, which deals with standard accounts and tables.

