STUDIES IN METHODS

Series F No. 2 Rev.2

A System of National Accounts and Supporting Tables

UNITED NATIONS

DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

STATISTICAL OFFICE OF THE UNITED NATIONS

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PREFACE TO THIRD EDITION

This edition incorporates some changes in paragraphs 50 and 216 of the text of the Second Edition designed to improve consistency with the recommendations of the International Monetary Fund. The previous text has also been clarified or corrected at a number of points and references to the Balance of Payments Manual, the International Standard Industrial Classification and the Standard International Trade Classification brought up to date.

PREFACE TO SECOND EDITION

At the request of the Statistical Commission the Statistical Office published in July 1953 proposals for a standard system of national accounting in the report A System of National Accounts and Supporting Tables (Studies in Methods, Series F, No. 2) drafted by a group of experts under the Chairmanship of Mr. Richard Stone. In taking note of this publication, the Commission at its seventh session requested the Secretariat to collect comments and information on the experience obtained by countries in applying the concepts and classifications proposed in the report, so as to provide a basis for further recommendations relating to international standards in the field. At its ninth session, April 1956, the Commission reviewed the more important comments which had been received up to that date. In the light of this review, the Commission decided that, while no major changes were immediately necessary, several minor modifications were desirable to maintain or improve comparability with related international standards, and to take account of clarifications and adjustments sought by governments and international organizations. Accordingly, it requested the Secretariat to formulate proposals for the amendment of the existing system, to circulate these proposals to governments for comments, and to report to the Commission at its tenth session in April 1958. At this session the Commission recommended that a revised text should be prepared, taking into account the comments of countries and of delegates to the Commission. The present text is in conformity with this recommendation.

In accordance with the Statistical Commission recommendation that only minor amendments be made, the existing text has been retained, except for such amendments as have been adopted. It is envisaged that, at some future date, the United Nations System of National Accounts will be extended to include flow of funds and input-output tables, in the first instance, and national balance sheets as a longer-term objective. Many national statistical offices have made progress with, or are at present examining the possibility of, extending their national accounts in these directions and it seems likely that, sooner or later, it will become necessary to establish international standards in regard to them. Such extensions will inevitably involve some important revisions in the existing system as far as it goes, an anticipation which constitutes an added reason for maintaining, in the present revision, the existing text as far as possible.

PREFACE TO FIRST EDITION

The Statistical Commission, at its fourth and fifth sessions, recommended that the Secretariat should continue its work on proposals for providing a uniform basis for reporting national income statistics and stressed the need for establishing standards in this field as soon as possible. The Statistical Commission envisaged that, in order to take account of the experience of different countries in this field, experts from different countries should participate in this work.

The General Assembly and the Economic and Social Council have repeatedly stressed the importance of the preparation of national income estimates by countries, especially under-developed countries, and have requested the Secretary-General of the United Nations and the specialized agencies concerned to give the most favourable consideration possible to requests for technical assistance made for this purpose (General Assembly resolutions 238 A (III) and 403 (V), Economic and Social Council resolutions 299 E (XI) and 369 (XIII)). It is expected that the present report will be of assistance to countries wishing to undertake these studies.

The purpose of this report, which was prepared in partial fulfilment of the recommendations of the Statistical Commission, is to set out a standard national accounting system in order to provide a framework for reporting national income and product statistics which is of general applicability. It is a sequel to an earlier report entitled Measurement of National Income and the Construction of Social Accounts published in 1947. While the principles underlying the two reports are similar, a large amount of experience in the field of national accounting has been obtained in the last five years and the present report incorporates the fruits of this experience.

The practical uses of national accounting are surveyed in chapter I, and the system which forms the subject of this report is placed against the background of related fields of investigation. In chapter II the principles underlying the construction of national accounts are described. Chapters III and IV contain respectively a standard system of accounts and a standard set of tables which are believed to be suitable for general use. In chapter V detailed definitions are given of the flows which enter the standard accounts and tables. The report concludes with two appendices which relate to problems of industrial and commodity classification.

In drawing up the definitions and classifications proposed here, account has been taken of the experience of various countries compiling and publishing official statistics of national income and expenditure, and of the experience of the Statistical Office in analysing the publications received and in making preliminary proposals for international standards in this field. The experience of other international organizations, and particularly the work of the National Accounts Research Unit of the Organisation for European Economic Co-operation on a standardized system of national accounts has also contributed substantially to the work which is embodied in this report.

The standard accounts and tables presented in this report differ from earlier reports in two major respects. First, the needs of under-developed countries have been explicitly taken into account throughout the present document, both in the formulation of concepts and in the tables and definitions presented. Secondly, the accounts have been further elaborated to give information about transactions of a capital nature.

This report is confined to national accounts expressed in current money terms. For many purposes it is necessary to make comparisons over time in terms of constant prices. The many conceptual and statistical problems involved in obtaining the information for such comparisons are not examined in this report. It may be noted, however, that the major step that can be taken in this direction is the preparation of measures of the physical volume of the national product. This task can be approached in two different ways which in principle should yield identical results. Index numbers of production originating in the various industries can be aggregated to yield measures of total production. Alternatively index numbers of the real volume of expenditures on final products can be aggregated to yield the same total. Each of these measures can, in principle, be obtained either by direct quantity measurement or by the deflation of series of current money values by appropriate price index numbers. The most efficient combination of these methods will depend on the type of statistical information that is or can be made available in the various countries.

It is desirable that recommendations formulated by international agencies responsible for developing standards in economic and financial statistics and national accounts be consistent and well integrated. Therefore, in drawing up the present report, care has been taken to ensure consistency with definitions and classifications already used or recommended by the United Nations and the specialized agencies in related statistical fields.

Since the purpose of this report is to set out a system of national accounts, with particular emphasis on the development of international standards for concepts and classifications, no attention is given to the statistical problems of compiling and measuring the items entering into the accounts. For a detailed discussion of problems of measurement, reference is made to other reports that the Secretariat intends to issue in the future.

This report is the work of an international group of experts and the recommendations contained in it represent their conclusions. It has been submitted to the Member States and interested organizations for their information.

The views and comments received have been presented to the Statistical Commission at its seventh session (E/2365, paragraphs 43-52). At the request of the Commission, the present slightly revised version of the report is circulated for further comments and information on the experience obtained by countries in applying the concepts and classifications proposed, so as to provide a basis for further recommendations relating to international standards in this field.

The group of experts, appointed by the Secretary-General, was composed of: Loreto M. Domínguez, Department of Economic and Social Affairs, Pan American Union; Kurt Hansen, Ministry of Finance, Denmark; George Jaszi, Chief, National Income Division, United States Department of Commerce; Moni Mohan Mukherjee, Statistician, National Income Unit, Ministry of Finance, Government of India; Richard Stone, Director of the Department of Applied Economics, University of Cambridge. At the invitation of the group, Richard Stone acted as Chairman.

The Secretariat, on behalf of the United Nations, wishes to express appreciation to these experts for the contribution which they have made with regard to this highly important and comparatively unexplored field of statistics. A debt of gratitude is also due to the organizations with which the experts are associated for their willingness to enable them to participate in this valuable work.

Statistical Office of the United Nations
New York
July 1953

Chapter I

THE DEVELOPMENT AND USES OF NATIONAL ACCOUNTING

1. SYSTEMATIC DESCRIPTIONS OF THE ECONOMIC STRUCTURE

1. The production, distribution and use of goods and services involves many complex processes and to understand these processes better an increasing amount of information is being gathered all over the world. All this information belongs to the realm of economic statistics. As the volume of this information grows there is an increasing need to systematize it and to put together the mass of detail into a coherent picture of economic structure. The efforts to do this have taken a number of distinct, but partially related, forms. One group of investigators has been concerned mainly with the concept and measurement of national income and product and their development into a system of national accounts. Another group has approached the general problem of the interdependence of commodity flows from a somewhat different point of view which has resulted in the establishment of input-output tables which display the structure of commodity flows between industries. Yet another group has concentrated on tracing the purely financial flows in the economy and has particularly emphasized the role of the money and banking system which plays a comparatively minor part in the other two approaches. Others have interested themselves in stocks rather than flows, in wealth rather than income and product, and have constructed balance sheets for the economy and its various parts. These investigations have been done primarily for individual countries but in recent years the interrelationships among international commodity transactions have also been subjected to systematic investigation. All these systems are expressed in current money terms and it has been found necessary to develop quantity and price information on a broad scale in order to decompose current money flows into volume and unit value components. This work on quantity and price information has on the whole been somewhat less systematized but there are signs that in some countries the position in this respect is now changing.

2. It is possible to conceive of these related systems being put together into a still more comprehensive system for individual countries and ultimately of the linking of these systems. Thus, if a start is made with a system of national accounts such as is described in this report, the production account could be subdivided so as to display the commodity flows between industries which are the central feature of input-output studies. In a similar way, by a suitable elaboration of the accounts, it would be possible to introduce all relevant financial flows into the same system. The accounting structure could then be completed by adding balance sheets for the different sectors of the economy. Finally it would be possible to express in constant prices the principal product flows and stocks in this system.

3. The actual construction of such a comprehensive accounting system is hardly possible at the present time, as far as most countries are concerned. Nor, given the practical needs and resources, should it be the immediate objective of economic statisticians engaged in this field. What is important is a realization that all these inquiries are interrelated and that each would gain in value if the definitions and classifications used were as far as possible the same.

2. THE DEVELOPMENT OF NATIONAL ACCOUNTING

4. This report is confined to an exposition of the concepts and definitions underlying the construction of a standard system of national accounts, using this term in its usual and more restricted sense. There has been a great deal of activity in this field in recent years and the principal change that has taken place is that the national income and product totals, which at one time formed the sole centre of interest, have now been fitted into a closed network of economic transactions.

5. The main impetus for this development was the practical need for information about the working of the economic system as a whole and the way in which its various parts are related to one another. The practical need arose largely from the great depression of the 1930's and the subsequent problems of economic mobilization and war finance in the Second World War. In the post-war period the information was desired to throw light on problems of economic reconstruction and development and, more generally, for assessing economic change as a background for economic decision-making in connexion with public policy.

3. THE USES OF THE NATIONAL ACCOUNTS IN PUBLIC POLICY

6. While national accounting information is useful in all fields of economic decision-making because of the factual background which it provides, its outstanding use has been in connexion with public policy and the following discussion will be in terms of this use.

7. In formulating economic policy it is usually necessary to assess the probable situation as it would materialize if no additional policy measures were taken and to formulate measures that are needed to bring the situation nearer to a desired goal. Both the assessment of probable developments and the formulation of the economic goal will be aided by information on the factors relevant to the situation and the manner in which they are related to one another. National accounting is of material aid in providing this type of information especially when the problems under consideration involve the economic system as a whole rather than isolated parts of it. Its usefulness lies in the fact that it gives a systematic presentation of the major economic flows in the framework of a comprehensive accounting system and that it facilitates the understanding of the statistical relationships among these flows.

8. Even a simple inspection of the figures, for a given year or over a period of time, yields information on certain structural properties of the economy which is a useful, if not essential, background for public policy formulation. For instance, it is relevant to know what part of the total product of an economy is devoted to consumption as opposed to capital formation; the extent to which the economy is dependent on foreign trade; the part which is played by foreign aid in providing the goods and services absorbed by the economy; the relative amounts of production originating in various industrial sectors, such as agriculture, manufacturing and trade; the extent and the manner in which different parts of the economy make saving available for capital development; and other pieces of information of a similar kind.

9. Useful conclusions can be derived from such factual information without any elaborate analysis. Even a rough quantitative picture of the economy is valuable for many administrative purposes and for this reason national accounting studies should be undertaken even if in the short run they cannot be expected to attain a high degree of quantitative precision.

10. This simple kind of analysis can achieve considerable practical importance in co-ordinating different claims on the productive system so as to meet certain general requirements, such as the stability of the economic system as a whole, which cannot be taken into account if each of these claims is considered in isolation. Such co-ordination of plans is one of the major achievements of national budgeting; that is, the matching of the supply and demand of productive resources and their finance in the form of a budget. In countries in which the government takes an active part in the direct allocation of resources it is necessary, in order to draw up such a budget, to assemble from time to time representatives of administrative departments in order to establish realistic programmes or estimates. The consequence of this is a realization of the relative magnitude of competing claims and of the fact that their sum total must be adjusted to a largely given amount of available resources. Even though the national budgets so formulated often differ from the actual outcome of events, because of the emergence of new elements in the situation that could hardly have been foreseen, this budgeting is useful because it ensures that in the formulation and carrying out of departmental plans the interaction of the plans with one another and with the various supply elements in the situation is taken into account in terms of quantities the order of magnitude of which can in many instances be foreseen. At the same time this procedure makes it possible to evaluate the character and extent of the fiscal and monetary measures necessary to ensure economic stability, given the demands on resources which are resulting from specific decisions already taken and the extent of control found to be acceptable.

11. National budgeting of this type has been applied in recent years in many western countries but the need for it is becoming increasingly apparent for under-developed countries as well. One of the major problems with which these countries are confronted is the enlargement of their productive capacity on a substantial scale. Their plans for capital development must be co-ordinated with one another and with other claims on the total of available resources which often manifest themselves in a strain on the balance of payments and on the internal financial position.

12. In countries that mainly rely on monetary and fiscal measures as instruments of general economic policy, national accounts are also useful because they provide a systematic framework for assessing the probable course of economic developments and the nature and extent of the adjustments needed in the available instruments of government policy.

13. While even comparatively rough information can make an effective contribution in this type of analysis, the position could, of course, be improved by increasing the accuracy of the data and by introducing more knowledge of the statistical relationships. Even if this can be done, however, it is clear that there will always remain some influences on the situation which cannot be introduced into the relationships and must be appraised in the light of historical experience the interpretation of which involves an element of individual judgement. Comprehensiveness of statistical data and the elaboration of relationships expressing economic behaviour assume a greater importance the smaller the number of variables that are determined in advance by acts of public policy. A consideration of special importance in under-developed countries is that the mere attempt to set up a comprehensive set of national accounts directs attention to gaps in basic statistical data which must be filled if these countries are to expand economically with prudent rapidity.

4. A STATISTICAL PROGRAMME FOR NATIONAL ACCOUNTING

14. It has been found by experience that national accounts, in the widest sense of the word, provide an excellent means of appraising any actual or proposed scheme for the collection of economic statistics since a place for virtually all these statistics is provided systematically somewhere in these accounts. In practice it will not be feasible in the short run to establish a complete system of economic reporting, and statistical data collection in each country should be adapted to that country's main needs.

15. The data that are gathered should, however, be capable of assimilation into the broader system and the needs for international comparability should be kept in mind. In the remaining parts of this report standard definitions and classifications for national accounts in the more restricted sense are set out. Countries which prepare national accounts for their own internal purposes may of course modify them in various ways to suit their own needs, but they should try as far as possible so to arrange their work that the standard set of accounts and tables can be derived.

16. In the present situation one of the major practical choices appears to be the relative emphasis given to flows within the productive system and to flows within the rest of the system. The former, which involves the construction of an input-output table, is of particular relevance in the study of detailed production possibilities. The latter, which leads to the construction of national accounts as developed in this report, is sufficient

for the allocation of resources among types of end use, and is relevant to problems of effective demand and its finance.

17. In most actual situations some combination of these two approaches will be effective. In addition it will often be desirable to be able to study some parts of the system in greater detail. For instance, a separation of the accounts of the money and banking system may be of interest in the analysis of financial problems. A regional classification of income and product flows may be of interest in countries which are geographically heterogeneous. The precise nature of the modifications that are called for must be determined by individual countries in the light of the actual economic problems confronting them.

Chapter II

BASIC CONCEPTS

1. INTRODUCTION

18. The aim of national accounting is to describe the structure of an economic system in terms of transactions. Production may be taken as a basic concept and section 2 of this chapter is devoted to a definition of the value of production. Production may be subdivided according to its uses and the main distinctions in this respect are set out in section 3. So far the concepts defined relate to products and their valuation. In section 4 the finance of the expenditure on these products is considered and is traced back to its ultimate source either in domestic productive activity or in the rest of the world. By setting out the matter in this way a complete description is given of the transactions in an economic system. It is apparent, however, that when this stage has been reached great advantages accrue from presenting the network of transactions in terms of a system of accounts. This is done in section 5.

2. THE DEFINITION OF THE VALUE OF PRODUCTION

(a) The boundary of production

19. Production is a basic concept which can be described as the provision of goods and services. Not all production, however, in this broad sense is included in the concept of economic production which enters into national accounting. It is, therefore, necessary to state as clearly as possible the line of distinction between production that is, and production that is not so included. This may be done conveniently by drawing a production boundary and, accordingly, the object of this section is to explain how this should be done.

20. In a monetary economy all goods and services are included in the concept of production if they are exchanged for money. However, it is obvious that a mere summation of commodities traded during a period would result in a measure of gross commodity transactions or turnover rather than in one of the true, unduplicated, production of the economy. Accordingly some means must be found either of excluding the value of intermediate products, that is commodities which are used up in the production of other commodities, or of isolating final products, that is commodities which have not been purchased and charged to current cost by other producers in the same period and so cannot, in that period, form part of the value of the production of other commodities. It should be noted that the term "goods and services" is conventionally employed to refer to "goods and 'non-factor' services". It should always be interpreted as excluding factor services.

21. The required total of production free of duplication can be obtained in two ways. The first is to sum the value of the gross output (sales plus the increase in stocks) of all producers and to deduct from this total the purchases of these producers from other producers, the intermediate products referred to in the last paragraph. A net figure of this kind can be obtained for each producer separately and represents the value added by him to the value of the intermediate products with which he starts and hence his contribution to the total value of production. Looked at from a different point of view this value added represents the wages, profits and other forms of income that accrue in productive activity.

22. The second method of obtaining the same production total is suggested by the fact that in the above calculation of net outputs, the value of all intermediate products appears positively as the output of one producer and negatively as the input of another producer. As a consequence all intermediate products may be cancelled out and the value of total production may be obtained by summing all final products as defined above.

23. These ways of deriving the total value of production are equivalent but their subdivision leads to three distinct classifications of this total. Aggregate value added may be subdivided to show the portion of total production originating in various producing units which may be grouped together by industry, by legal form of organization or by other institutional categories. The income shares which make up these values added may be recombined to yield the aggregate of each type of income generated in production. Lastly, the total value of final products may be classified by product to show the composition of the final output of the economy.

24. In order to apply the foregoing ideas, a definition of producer is needed. As a first approximation it may be supposed that transactors, that is the producing and consuming entities in the economy, can be exhaustively and exclusively classified as either enterprises or households and that producers can be identified with the former category. Given this definition of producer, it emerges that two types of final output may be distinguished. The first of these represent purchases by households from enterprises and the second represents purchases by enterprises which have not been charged by them to current expense. The former is usually termed consumption expenditure when viewed from the standpoint of the households and the latter consists of capital formation in fixed assets and stocks.

25. In other words the production boundary is drawn by first separating households from enterprises and by then separating two types of purchases by enterprises, namely those which are and those which are not charged to current cost. The boundary is drawn around the production accounts of enterprises which contain all sales but only the purchases of enterprises which are charged to current expense. Sales which are not so charged flow across the boundary to households or to the capital accounts of enterprises and are final product. Sales which are so charged begin and end within the boundary and are intermediate product.

26. The distinction between enterprises and households is not in all cases sufficient to draw a satisfactory production boundary. In the simplest case, households may buy direct services, such as domestic services, from other households and it seems reasonable to regard these services as part of production. This can be done by recognizing a limited amount of production within households. The household that buys the direct services rendered by other households is thought of as buying at cost, in its capacity as a consumer, the direct services from a production account to which is debited the cost of the services. This production account, like any other, lies within the production boundary and what flows out of it is part of final product.

27. In addition to this case, in which households render direct services to each other, the separation of transactors into households and enterprises raises problems because of the existence of many other examples of households engaging in activities which it seems reasonable to regard as part of production. For instance, farm households are not only households from the consuming point of view but also enterprises which engage in agricultural production. These two aspects of their activity must be separated and this may be done by setting up a production account to which purchases and sales in respect of their productive activity are debited and credited and a consumption account to which is credited their income and to which is debited their consumption expenditure. These households usually produce agricultural products for their own consumption as well as for the market and it is desirable to impute a sale by their production account to their consumption account in respect of the value of the produce which they consume. It will be evident that the costs incurred in producing output for home consumption will have to be debited to the production account in the same manner as the cost incurred in producing for the market. Consequently, the net profit shown on the debit side of the production account and transferred to the consumption account will include in addition to the net return on marketing a net return also on the value of home consumed output.

28. In industrialized economies, in which monetary exchange and the division of labour have progressed far, the separation of households from enterprises and the inclusion in total product of production for home consumption do not constitute important practical problems in national accounting because by far the greater part of production takes place for sale in the market by enterprises which in most cases are clearly defined. In under-developed countries, however, the reverse is the case and so it is important to set up clearly defined rules for drawing the production boundary.

29. The following rules have as their object the inclusion in production of household activities that are clearly akin to those which are usually undertaken in enterprises and the exclusion of those for which the analogy with enterprises becomes tenuous and which do not lend themselves to any precise definition. It is convenient in stating these rules to draw a distinction between primary and other producers.

30. In the case of primary producers, that is those engaged in agriculture, forestry, hunting, fishing, mining and quarrying, all primary production whether exchanged or not and all other goods and services produced and exchanged are included in the total of production. In the case of other producers, that is, those engaged in all other industries listed in the International Standard Industrial Classification, the total of their primary production is included as for primary producers. In addition there is included the total of their other production which is exchanged together with the unexchanged part of their production in their own trade. As a result of these rules there is omitted from production the net amount of all non-primary production performed by producers outside their own trades and consumed by themselves. Non-primary production may be defined broadly as the transformation and distribution of tangible commodities as well as the rendering of services.

31. These rules are in close agreement with the imputation procedures used for industrialized economies. The farming imputation made for such economies accords with the rules given for primary producers and the rental imputation accords with the rules given for other producers if account is taken of the fact that home-ownership is regarded as a trade. In practice, no other imputations of this kind are made since primary production and the consumption of their own produce by non-primary producers is of little or no importance.

32. The existence of government activity gives rise to further problems in drawing the production boundary and these are solved in exactly the same way as for households. Government engages in selling and producing activities analogous to those which take place in business enterprises and these activities are separated from those of the general government by setting up production accounts for them. General government activities are treated like the activities of households. The hiring of the direct services provided by civil servants and members of the armed forces involves the setting up of a production account as in the case of households. The capital formation by general government is treated in the manner described in section 1 (c) of chapter V.

33. A production account similar to that for civil servants and members of the armed forces is not set up for the lenders of funds to general government. If this were done the product originating in general government would become dependent on past and present methods of financing government expenditures. This would be inappropriate since it would result in a concept of product at variance with the concept adopted for enterprises. In the case of enterprises, the concept of product depends on the difference between output and input and is therefore invariant to the method of financing adopted. Interest on consumers' debt is treated in the same way as interest on the public debt.

34. The production boundary must also be defined with respect to private non-profit institutions although quantitatively the activities of these institutions will usually be of comparatively minor importance. The treatment in this case is the same as that adopted for households and government.

35. In drawing the production boundary no distinction has been made so far between legal and illegal operations. It is proposed to include in production only

activities in which the receipts are obtained with the unenforced consent of the payer. Distributive activities in black markets would form part of production under this definition while the proceeds of thievery would, in accordance with the usual treatment of illegal operations in the concept of national product, be excluded.

36. Once the boundary has been drawn around the productive system the region within it can be further subdivided in various ways. One of these is by the industry in which the production originates and this is the problem of industrial classification which is considered in section 5 (b) of this chapter.

(b) Intermediate and final products

37. Once the production boundary has been established for an exchange economy certain flows will be found to cross the boundary. Those which flow out of the region could be said to make up the constituents of final product. The concept of final product which would be obtained by taking these transactions will not be altogether satisfactory because the production accounts of actual enterprises will not necessarily show just the flows which it is reasonable to regard as passing the boundary. For instance, coal mining companies sometimes provide free coal to their employees which, however, they do not show as part of wages but instead as coal consumed in internal operations. Since from the standpoint of the miners it is reasonable to assume that the free coal which they receive is part of their consumption, an imputation of sales of coal to miners by the mining company is made in the production account matched by a corresponding flow of imputed wage payments in the opposite direction. As a consequence the free coal received by miners flows across the production boundary and intermediate products are converted into final products. The sum total of final products is thus made larger by the imputation.

38. In principle the converse of this situation may arise and products actually crossing the production boundary, and hence constituting final products, may be deemed to represent intermediate products. For instance, under certain contractual agreements, miners are required to purchase working tools such as lamps and explosives out of their monetary wages. It would be reasonable to regard these expenditures as direct business costs. This would involve a downward adjustment in the wage payments of the mining company and a corresponding upward adjustment in its intermediate purchases. As a consequence the sales of working tools would cease to flow across the production boundary and would be channelled directly to the production account of the mining company. In this instance final products would be converted into intermediate products by the imputation and the sum total of final products would be diminished. In practice, imputations of this type are rarely made in national accounting.

39. As a general rule these types of imputation in national accounting are confined to cases in which a clearcut benefit, supplementary to monetary wages, accrues to employees and to the opposite cases in which parts of wage payments must be diverted to purchases that have obviously no direct utility to the wage earners. No allowance is made for the broad range of business costs which contribute to the amenities of working life such as better sanitary conditions in factories. Similarly no adjustments are made for the fact that many expenditures by consumers, such as expenditures on the journey to work, contain an element akin to business expense.

40. In the case of government similar problems arise when expenditures of use to business are provided by the government. These expenditures appear as final products even though it might be possible to regard them as intermediate products. For instance, seed, fertilizers and other supplies given free of charge to farmers through agricultural experiment stations might be treated as intermediate products by replacing the government purchases of these products by an imputed subsidy to farmers. The production account of farmers would then be deemed to buy directly from business the products actually bought by the government. It is difficult to think of quantitatively important cases in which a clearcut separation of the business element in government services could be made and in practice such imputations are not attempted in national accounting.

41. So far the distinction between final and intermediate products has involved the precise definition of consumption expenditures. Similar problems are encountered in distinguishing capital formation from intermediate production. These involve no new principles and will be discussed in section 3 (b) of this chapter.

(c) Gross and net concepts

42. Fixed capital used up in the process of production has not been included so far in the commodities purchased by production accounts in the different industries. Consequently product has been defined only on a gross basis, that is, before any provision for the consumption of fixed capital. Since this consumption is similar to the consumption of raw materials and the like, it is desirable to have a concept of net product in which a provision for the consumption of fixed capital is deducted from the gross total.

43. In a stationary economy, in which the quantity of fixed assets in use remains the same and does not change in quality, these provisions can be defined so that in each year they are equal to the replacement needed. In an economy, however, in which the stock of assets is changing in quantity, it is not equally simple to set up corresponding rules and if the rules appropriate to a stationary economy are applied it may be found that the provision will no longer be equal to the required replacement. The problem of defining provisions for the consumption of fixed capital are further complicated in an economy which is characterized by changes in demand or by technical change which leads to obsolescence and the replacement of assets by different assets.

44. It seems reasonable to make these provisions on a straight-line basis with reference to the expected economic lifetime of the different kinds of fixed asset. It will be found that this rule may result in excessive provisions when the volume of fixed capital increases or when assets are replaced by more efficient types of

asset. No means have been found of stating general rules in such cases. No provision should be made for unforeseen obsolescence, which should be treated as a capital loss.

45. Charges made for the depletion of exhaustible natural resources are not included in the provisions for the consumption of fixed capital. The only items with respect to these resources which enter capital formation are the construction and equipment used in making them available. Provisions for the consumption of these items should be made according to the rules just given, but further provision for the consumption of the irreplaceable resources themselves should not be made in national accounting.

(d) National and domestic concepts

46. If the production accounts of all domestic producers are consolidated, the resulting total will measure the production taking place in what is called the domestic territory of the country. Some of the value added in this production accrues to foreign suppliers of factor services rather than to normal residents of the country. These residents derive, in addition to income which accrues to them from domestic production factor, income from abroad. If the total of domestic product is adjusted for these external flows of factor income by subtracting the outward flow and by adding the inward flow there results a total termed the national product. This total refers not to production originating with the territory but to the total of production all over the world attributable to factors of production supplied by normal residents of the territory.

47. As an alternative formulation of the definition of domestic product given in the preceding paragraph, domestic product can be defined as the product attributable to factor services rendered to resident producers. Factor services rendered to resident producers of the given country when they are located abroad, including resident institutions functioning abroad, are included in domestic product. Domestic and national product can thus be defined in analogous terms: domestic product as the total of production attributable to factor services rendered to resident producers of the given country; national product as the total of production attributable to factor services supplied by residents of the given country.

48. The domestic territory of a country is here defined to exclude overseas territories and possessions and to include, in addition to the territory lying within its political frontiers, ships and aircraft operated by domestic carriers even while in the territorial waters of another country or in the air above it. The operation of ships on time-charter should be treated as an enterprise activity of the country in which the ships' operators are resident, the value added in production by that enterprise being net of the charter fee paid to the ships' owners. This charter fee would constitute a payment for a non-factor service produced in the country of the owner. The ships involved would remain part of the domestic capital of the countries owning them. The construction of buildings for use by embassies, consulates and international governmental agencies should be considered part of the domestic fixed capital formation of the country of location irrespective of ownership. Buildings purchased, or rented should, in similar fashion remain part of domestic fixed capital.

49. In the case of concerns operating in several countries, complicated problems will often arise in allocating their activities to different territories and in deciding what part of their profits accrue to residents. The principle adopted here in conformity with the practice of the International Monetary Fund, is that production and the income arising therefrom should be ascribed to the territory in which the production takes place, costs and proceeds being calculated as if the concern in question bought or sold at market prices even if, in fact, some part of what it receives from, or transfers to, other units of the complex of which it is a member is omitted from its records or entered only at a nominal value. Commercial agencies transacting business for foreign principals should be treated as resident institutions of the country of location when the agencies' transactions are for their own account. When they act as agents for account of a foreign principal the transactions would be classified according to the country of the principal rather than according to the country of the agencies. Where transportable assets, such as ships or aircraft, are owned and operated jointly by a number of countries, an allocation should be made according to the participation of each country in the financial capital of the enterprise.

50. The profits of direct investment enterprises such as branches and subsidiaries should be regarded as accruing to the parent concern in proportion to its investment in the enterprise and, in principle, should be included in the national product of the country of residence of the parent concern whether distributed or not. Where the enterprise is directed from abroad the income to be ascribed to the country in which it is located should be reckoned after charging the appropriate proportion of head office expenses.

51. The term resident, which will include both individuals and institutions such as government agencies, corporations and non-profit institutions, is here defined in the manner adopted by the International Monetary Fund. Thus tourists or commercial travellers of a given country travelling abroad are treated as residents but citizens of a given country who usually live abroad are not. The official diplomatic and consular representatives of a given country, including members of official missions and members of armed forces stationed abroad, are to be considered extraterritorial by the country in which they are located and therefore as residents of the given country. They are considered to contribute to the domestic product of the countries in which they are residents. Wages and salaries paid to locally recruited staff of foreign diplomatic and military establishments are regarded as factor income paid by these establishments and the corresponding factor services would be included in the national but not the domestic product of the country of location. Civil servants of the metropolitan countries who are engaged in the general administration of associated territories and who are located in these territories should be treated as residents of these territories. Payments made by metropolitan governments to such civil servants constitute international transfers.

52. International agencies, such as political, administrative or financial organizations in which the

members are governments, are not treated as residents of the country in which they are located. It is convenient, however, to treat the permanent staff of these agencies as normal residents of the country in which the organization is located. Wages and salaries paid to the permanent staff are regarded as factor income paid by the international agencies. The wages and salaries paid would thus be included in the national but not the domestic product of the country of location.

53. In practice, many unimportant borderline cases are likely to arise in which it is difficult to decide whether a given individual is to be treated as a normal resident or as a foreigner. In such cases it is difficult to give exact rules and an element of convention is unavoidable. Where this situation is encountered, the same treatment should be adopted as is used in submissions to the International Monetary Fund.

(e) Market valuation

54. Production should as far as possible be valued at market prices. Thus the monetary purchases of households are valued at the prices actually paid and the same is true of purchases by private non-profit institutions, general government, and purchases on capital accounts. In the case of non-monetary transactions, that is, barter and production for own use, the prices to be applied are those at which the producer sells, or if he does not sell, those at which producers of similar products sell in the same or neighbouring localities. If producers provide their employees with goods and services which they do not produce themselves these should be valued at the price paid by the employer for them.

55. Minor modifications have sometimes to be made to these general rules, For instance, it is convenient to value own-account construction at the cost to the enterprise undertaking it exclusive of the profit margin which might be realized by a contractor producing a similar product. This profit margin will ultimately be reflected in the profit obtained from the main business of the own-account constructor. Further problems arising in the valuation of capital formation are discussed in section 3 (b) of this chapter.

56. The valuation of illegal operations does not involve any new principles but is likely to lead to practical difficulties owing to the clandestine nature of these transactions.

(f) Market prices and factor costs

57. In a system in which there are indirect taxes and subsidies the market value of all final products will exceed the total of incomes accruing to the factors of production by the excess of indirect taxes over subsidies. In these circumstances it is convenient to value final products at market prices, that is to say, inclusive of indirect taxes and exclusive of subsidies, since these are the prices actually paid by the final buyers. It would be possible, in principle, to value final products at factor cost but it is more interesting to adopt this procedure in the classification of production by industrial origin. The reason is that in this way the distribution of the services of factors of production can be approximated more closely since, in competitive conditions at any rate, it is reasonable to suppose that indirect taxes influence relative market prices rather than factor incomes. This, indeed, is the object of making the distinction between indirect taxes and subsidies on the one hand and direct taxes and transfer payments on the other. This distinction, which improves the invariance of the concept of factor income with respect to changes in the tax structure, is not immediately applicable as a criterion for classifying taxes and government grants to producers because in many cases it would not result in an exclusive classification of all taxes into one category or another. Accordingly, the following definitions are adopted.

58. When paid by business, indirect taxes are those chargeable to business expense; when paid by individuals these taxes are those not levied regularly on income or wealth, and in the assessment of which no account is taken of the personal circumstances of the taxpayer.

59. In principle, subsidies may be defined as negative indirect taxes which contribute to factor incomes although they do not enter into market prices. In practice all current grants to producers are treated as subsidies because it is difficult to distinguish subsidies from transfer payments if the latter are made to enterprises.

3. THE USES OF TOTAL PRODUCT

(a) Ultimate uses and the production boundary

60. Once the production boundary has been drawn and final products have been distinguished from intermediate products, the concept of final use as it is understood in national accounting has been defined. The goods and services bought by final buyers may be combined by them in different ways to serve various purposes. If it were thought desirable to include these activities in production it would be necessary to extend the region inside the production boundary so that these further activities would fall within it. Such an extension of the production boundary is not attempted in national accounting because clearcut general criteria have not been found. The distinction that is made is, however, of interest because it results in a concept of production that is largely invariant to changes in living habits. This is so because, under normal circumstances, the amount of factor services available inside the production boundary as defined in this way is to a considerable extent independent of the amount and type of activity going on outside it.

(b) The distinction between consumption and capital formation

61. The two basic uses of production, namely consumption and capital formation, were briefly introduced in section 2 (a) of this chapter. The fundamental distinction is between final product used up in the period of account and final product the benefits from which accrue partly in the future.

62. Capital formation is confined to tangible assets in national accounting. Services, such as education, received by individuals are excluded, even though their benefits are realized at a later date, because human beings are not treated as capital assets. Expenditures by business the benefits from which may be expected

to accrue in the future but which are not embodied in tangible assets, for example expenditure on an advertising campaign or that associated with long-term research and development, are conventionally excluded from capital formation.

63. Capital formation can conveniently be discussed under the headings of fixed capital formation and stocks. Fixed capital formation includes the value of the purchases and own-account construction of fixed assets (land and buildings, civilian construction and other works, machinery and equipment) by enterprises, private non-profit institutions in their capacity as landowners and general government. Changes in stocks of purchased materials, work in progress and finished products are included in capital formation if they are held by enterprises or as part of the stockpiling operations of general government. Durable goods other than construction acquired by households are excluded from fixed capital formation. The whole of the change in stocks held by households, private non-profit institutions and general government is excluded with the exception of the change in the stockpiles of general government just referred to. These excluded items will in all cases appear as consumption expenditure and as in the case of all other consumption expenditure their further use is not taken into account.

64. It would be desirable to adopt a more comprehensive and uniform treatment of capital formation especially in the general area of durable goods acquired by households, but lack of statistical information makes such an extension impracticable at this time.

65. Capital formation like all other product flows is valued at market prices. The application of this rule gives rise to certain problems in the case of own-account construction, consumption of fixed assets and the treatment of stocks. Own-account construction, as explained in section 2 (e) of this chapter, is valued at the cost incurred by the transactor undertaking the construction. Provisions for the consumption of fixed capital are valued at current market prices. This involves a valuation of the physical components of the provisions for the consumption of fixed capital already described. These are expressed in terms of a proportion of the assets that are being used up in production and should be valued in terms of the current market prices of these assets.

66. Depreciation charges include charges for foreseen obsolescence since they are based on the concept of the expected economic lifetime of the assets. In addition, provisions for the consumption of fixed capital include charges for accidental damage which should be determined by reference to the unexpired lifetime of the assets and valued at the current market prices of such assets.

67. Gross additions to stocks are valued at purchase price or at cost to the producing enterprise if internal processing of these stocks is involved. Stocks withdrawn and charged to current expense are valued at current market prices or at current cost prices in the case of internal processing. This method of inventory accounting ensures that whenever a stock is either sold or withdrawn and used in production a charge will be made in the production account that is sufficient to provide for its physical replacement at current prices. In this way the provision for replacing stocks is identical in concept to that made for the replacement of fixed assets through the valuation of provisions for the consumption of fixed capital at current prices.

68. In periods in which the physical volume of stock is increasing the proposed method of inventory accounting is identical in principle to the last-in-first-out method because the items last purchased by the inventory account are purchased in the current period at current market prices. The method proposed applies the principle of current valuation also in circumstances in which the physical volume of stocks is falling. Application of the last-in-first-out method under these circumstances, however, results in a valuation of inventory consumption at original cost as does the first-in-first-out method and as also does, in the case of fixed capital formation, the original cost basis of valuing the provisions for the consumption of fixed assets.

69. As in the case of other adjustments of the product flows discussed in this chapter, the proposed treatment of net fixed capital formation and the change in stocks calls for corresponding adjustments on the income side of the production accounts. In this case the adjustments will affect the concept of profit.

(c) The treatment of an open economy

70. In an open economy the concept of final product is not exhausted by consumption and capital formation. Exports represent an additional demand which is final from the standpoint of the exporting country. Similarly intermediate products are no longer confined to purchases from domestic production accounts but will include all goods and non-factor services imported from abroad.

4. THE FINANCE OF PRODUCT FLOWS

(a) The finance of final products absorbed by an economy

71. The final products absorbed by an economy consist of consumption and capital formation. The expenditures of individuals and institutions for these purposes are basically financed out of the incomes which arise in the production of these products. Actually, however, this circular flow of incomes and expenditures forms a complicated network of commodity and money flows determined by the structure of the economy. This process may be studied by an analysis of the actual transactions into which all individuals and institutions of the economy have entered during a certain period of time. Such a study will, of course, not reveal the casual relationships in the process of income generation but will only show the actual receipts and disbursements of individuals and others during the period. The financing of expenditure on final products described here shows consequently only the sources of finance as they are manifest in the actual records of the transactors. It is convenient to discuss these financial flows by considering in turn private consumption expenditures, general government consumption expenditures and capital formation.

72. The finance of private consumption expenditure. If the immediate finance of these expenditures is considered it is apparent that households have three main

sources of finance available for all purposes. These are the incomes they receive from their participation in productive activity, transfers which they receive from other parts of the economy and borrowing.

73. Since the expenditures on final products were classified into consumption and capital formation it is appropriate to consider separately the finance of these two types of expenditure. This involves drawing a distinction between current and capital receipts. The former includes the incomes derived from participation in productive activity and also transfers received in so far as they may be said to take the place of or to supplement such income. Transfers which would be included in income under this definition are, for example, unemployment and health insurance benefits, public assistance, old-age pensions, payments to veterans and family allowances paid to the general public. These transfers are distinguished from factor income payments in that they are not paid in exchange for the rendering of factor services in current production.

74. The sum of these two types of receipt constitutes the income of households. The whole of it is not available, however, for consumption or saving since households make, as well as receive, transfer payments, for instance in the form of direct taxes regularly levied on income. If these outgoing transfers are deducted a net amount is reached which is termed disposable income and is available to finance consumption. If the whole of it is not spent on consumption a surplus will result which is termed saving. If there is an excess of consumption over disposable income the resulting deficit is termed dissaving.

75. The finance of general government consumption expenditure. Whereas households usually receive the greater part of their income from participation in economic activity, general government usually receives only a small amount from this source and depends for the greater part on taxes transferred from the private sector of the economy. In analogy with the treatment of households the sum of these two items may be regarded as the income of general government from which outgoing transfers may be deducted to yield a total available to finance general government consumption expenditure. The balance, positive or negative, is termed the saving or dissaving of general government.

76. The finance of capital formation. For the nation as a whole, domestic capital formation is financed from four sources. The first of these is the saving of the nation which comprises the saving of households, private and public corporations and general government. The second source is the provisions for the consumption of fixed capital which are charged as expenses in production accounts. The third source is the borrowing by the nation from abroad. Internal borrowing by one sector from another cannot contribute net to the finance of domestic capital formation as a whole since it is in each case matched by lending by another sector and the pairs of lending and borrowing items will cancel out. The final source is what are here called international transfers, that is to say, transfers such as reparations, economic aid and the net inflow of migrants' capital. The sum of the last two sources is equal to the deficit of the nation on current account, that is to say, to the excess of imports and factor incomes and current transfers paid abroad over exports, factor incomes and current transfers received from abroad.

77. As in the case of borrowing, capital transfers may take place between two sectors of the economy. These transfers cancel out and do not provide a net source for the finance of total domestic capital formation although they may of course contribute to the finance of capital formation in individual sectors. Examples of such transfers are capital levies, estate duties, war damage payments and grants for capital development.

(b) The aggregation of financing flows

78. So far only the immediate sources of finance for the different types of expenditure on final product have been considered. The ultimate sources from which this finance is derived can be seen clearly if the immediate sources of the finance of consumption and capital formation are consolidated. In such a consolidation all transfers between households and government cancel out and what remains falls into two main categories. The first is derived from production and is equal to the sum of factor incomes, indirect taxes less subsidies and provisions for the consumption of fixed capital which in turn is equal to the value of production, that is the gross domestic product at market prices, described in section 2 above. The second is derived from the rest of the world and is equal to the sum of the net factor incomes, net international transfers and net borrowing accruing to the nation.

5. THE CHARACTERISTICS OF A SYSTEM OF NATIONAL ACCOUNTS

(a) Criteria for classifying transactions

79. It will be evident from what has been said above that there are certain relationships between the concepts that have been formulated in defining total production and its uses and the accompanying flows of finance. For instance, value added in the different industries equals the total value of final production and in a closed economy this total in turn equals the sum of consumption and capital formation. These relationships suggest that it may be worthwhile to record all transactions that take place in the economy by means of a comprehensive accounting system. The principles underlying the construction of such a system are discussed in the remaining part of this chapter.

80. In drawing up such a system three main criteria for classifying transactions are adopted. First, transactors are grouped into different sectors. Second, different forms of activity are distinguished. Third, different types of transaction are kept distinct. Each of these criteria of classification must be discussed in turn.

(b) The sectors of the economy

81. First, transactions are entered into by various types of transactor and since these are very numerous and fall into broadly distinguishable classes, it has been found useful to group them together into distinct sectors, such as enterprises, households, and general government, and to establish a separate set of accounts

for each of these sectors. This broad grouping of sectors could be extended by increasing the number of classes within each group which are regarded as distinct. For instance the enterprise sector could be subdivided by industry, by legal form of organization and in many other ways. Similarly households could be further subdivided, for instance by the size or by their principal source of income. General government could be subdivided by type of authority, such as central, state, and local government.

82. The definition of the three basic sectors is as follows:

(1) Enterprises include all firms, organizations and institutions which produce goods and services for sale at a price intended approximately to cover the cost of production. The class of enterprise includes the following categories:

(a) All unincorporated private enterprises such as farms, retail shops, craftsmen established on their own account and independent professional men.

(b) All households and private non-profit institutions in their capacity as landlords of dwellings whether or not they occupy their own properties.

(c) All private corporations other than private non-profit institutions serving households. It will be convenient to include enterprises organized on a co-operative basis in this group.

(d) Non-profit institutions serving enterprises, for example, different kinds of associations and research units which, while not principally engaged in commercial activity, are established by particular branches of business in order to increase their efficiency or their earning capacity. These institutions are included among enterprises even though they are not covered by the general definition above.

(e) All public enterprises, that is, in general, all enterprises as defined above which are owned or controlled by public authorities. Where public enterprises are permanently subsidized, they should be shown as receiving subsidies, not as incurring business losses. Many public enterprises such as nationalized industries, the post office and local authority housing estates, are clearly recognizable but it is convenient to include in this category certain other government agencies the enterprise character of which is less clear. These are government agencies which provide services to other government agencies of a kind which are often provided by private enterprise and which are established independently of the agencies which they service. Examples are munitions factories, repair shops for motor vehicles and navy dockyards. If such activities are undertaken exclusively for another department they will be included here only if they do not form a minor part of a general government agency. This rule also applies to government printing and publishing establishments which are only included here if working independently of other individual government agencies. The operation of public hospitals and schools will in general not be included among enterprise activities.

83. For certain purposes it is convenient to make a distinction in "public enterprises", between government enterprises and public corporations.

Government enterprises include all public enterprises which are financially integrated with general government and do not keep their own reserves apart from working balances.

Public corporations include, in the first place, corporations formally established and regulated by public law, their shares being wholly or mainly owned by public authorities and their management mainly chosen by public authorities. In the second place, private corporations should be included if they can be considered to be controlled by public authorities. The borderline between private corporations, as the term is used here, and government-controlled corporations must, therefore, often be arbitrarily drawn because of the vagueness of the concept of control.

84. Generally, government ownership of a predominant part of the shares will be a decisive criterion. In view, however, of the many forms in which a government may exercise control over business enterprises it is hard to provide a single criterion suitable for all cases but the important factor is an effective influence in all the main aspects of management and not merely such influence as is derived from the use of public regulatory powers of a general kind.

85. (2) Households and private non-profit institutions comprise all individuals who are normal residents and private organizations, whether or not in the form of corporations, such as associations, clubs and foundations, which are not established primarily with the aim of earning a profit and are not mainly rendering services to enterprises. The institutions included here are maintained principally through fees and dues from members and grants from enterprises, households and government. In addition, however, they will frequently obtain revenue from the direct sales of their services in such forms as fees to private hospitals and schools, and sales of publications.

86. These institutions include organizations such as trade unions, charitable bodies, clubs and non-professional sports associations purchasing goods and services only on behalf of their members, private research institutions (not serving business) and certain private schools, universities and hospitals.

87. Pension funds set up for employees of either enterprises or government are also included in this sector.

88. (3) General government comprises government agencies, whether central, state or local, which undertake all forms of activity, for example administration, education, defence and health services, other than those performed by agencies included in the category of government enterprises. The function of general government is to organize for, but not normally to sell to, the community those common services which cannot otherwise conveniently and economically be provided and to act as the administrative agency for the economic and social policy of the community. These agencies of government are included independently of their treatment in the actual government accounts and it is immaterial whether they are accounted for in ordinary or extraordinary budgets or in extra-budgetary funds.

89. It is convenient to include here, in addition to government agencies in the narrower sense, social security arrangements, even though they are not already formally part of government, if their activities may be regarded as an instrument of the social policy of the government. This will be the case with schemes imposed by government which involve compulsory contributions by employees and/or employers and in which the whole community is included, though possibly subject to certain exceptions, irrespective of occupation or industry. Even if a scheme does not fulfil these conditions it may nevertheless be found useful to include it in the government sector particularly if, by way of public regulation and supervision or by virtue of the existence of a system of government grants, the scheme clearly forms part of the social policy of the government.

90. If any sector is further subdivided it may be found difficult to allocate each transactor included in it exclusively to one of the possible subdivisions. In the enterprise sector, for example, a manufacturing firm may also be engaged in retail trade and its exclusive allocation to manufacturing or trade may be inappropriate. In these circumstances the boundary between the different types of production that are to be distinguished does not coincide with those of the firm and it becomes necessary to set up separate production accounts for those activities combined in one firm which belong to separate categories of the proposed classification. In making an industrial classification of total product it is usually sufficient in practice to take establishments (rather than firms) as the elements to be classified. This is so because establishments are engaged in more homogeneous types of activities than are firms. It may be found that the activities of a single establishment are classifiable into more than one industrial division. In these cases it would be desirable to distinguish further among the various departments of the establishment. The construction of separate production accounts for the departments of an establishment which is implied in this procedure is usually a difficult matter. Since it is not thought that in practice so detailed a principle of classification can be generally adopted the problems which would result in its actual application are not discussed here.

91. Similar classification problems arise if other sectors of the economy are further subdivided. For instance, if households are classified according to size of income it becomes necessary to define the precise concept of the family.

(c) Forms of economic activity

92. Three major forms of economic activity, production, consumption and capital formation, must be distinguished. Corresponding to each of these activities an account is set up for each sector. In addition, as will be seen, it is convenient to set up a fourth account for each sector into which are entered its external transactions, that is, its transactions with all other sectors.

93. The logic of this arrangement of accounts and their content is as follows:

(1) The production account of a sector shows the revenues and expenses connected with its productive activity. On the credit side it shows the sales proceeds (including the value of production for own use) and subsidies accruing to the sector including an item for the value of the physical increase of stocks held by the sector. On the debit side it shows the expenses of production consisting of materials purchased from outside the sector, the values of materials produced for own use, indirect taxes and provisions for the consumption of fixed capital. The remaining item on the debit side is the net value added by the sector which in turn is equal to the factor income generated in the sector. This amount represents the gain of the sector as a whole from its productive activity. In this gain is included compensation of employees and operating surplus. The latter includes interest, net rent and operating profit. The gain of the sector as a whole is transferred to

(2) The appropriation account. In addition to the gain from productive activity the credit side of this account shows for the given sector income from investments and current transfers from other sectors including the sectors of other countries. On the debit side this account shows the appropriation of this total to current outlays which may be income payments, current transfers (including those in respect of direct taxation) and consumption or to saving. This saving is transferred to

(3) The capital reconciliation account of the sector which also receives on its credit side the provisions for the consumption of fixed capital transferred from the production account of the sector together with capital transfers and borrowing from other sectors including the sectors of other countries. On the debit side of this account there appears the capital formation of the sector together with the capital transfers it makes and its lending.

(4) The external account of the sector contains as credits all the debit items of the other accounts of the sector which are not also credit items of one of those accounts. In a complementary way it contains as debits all the credit items of the other accounts of the sector which are not also debit items of one of those accounts.

(d) Types of transaction

94. The object of setting up a system of national accounts is to group transactions in such a manner as to give a meaningful picture of the structure of the economy. To a large extent this has been achieved by the division of the transactors in the economy into sectors and by the establishment of a common set of accounts for each of them. In this manner all flows between different pairs of accounts are distinguished from each other. No further distinctions are made, however, by this means among transactions between any given pair of accounts although they are needed in many instances. Such distinctions could be made by increasing the number of sectors or of types of account. To achieve these further distinctions in this manner would, however, defeat the object of pro-

viding a concise presentation of the economic structure. It is more convenient to obtain the desired additional information by a further listing of types of transaction to be kept distinct. For instance, even in a most general set of accounts it is desirable to distinguish between transactions involving goods and services, those representing the purchase of financial claims, and transfers to which no quid pro quo corresponds. In addition to these basic distinctions certain supplementary classifications are necessary. No general principles can be suggested but many applications can be found in the standard accounts and tables in the next two chapters.

(e) The basis of recording transactions

95. The transactions which reflect economic activity do not generally occur at one precise moment but stretch over a period of time and might be recorded at any one of a number of stages. Thus in the case of sales the change of ownership, the delivery of the goods, the presentation of an account and the receipt of the amount due may occur at moments separated by considerable lapses of time. If all these operations always occurred during a given accounting period their would be no need to choose one particular stage in the transaction as the basis of record. As it happens, however, many transactions are begun but not completed within a single accounting period.

96. The general rule adopted here is to record transactions at the moment when a sum of money, or the equivalent, becomes due and assignable in respect of obligations to, goods sold or services rendered by, an enterprise, institution or person. The magnitudes appearing in the system must therefore in principle be considered not as actual payments and receipts, but as flows of payables and receivables. Ordinarily the majority of these payables and receivables will have been matched by payments and receipts within the period. It is only the debtor and creditor positions at the accounting dates which affect the adjustment to a receivable-payable basis.

97. The procedures adopted in applying the above principle need to be elaborated further. In the case of transactions in goods and services a payable is deemed to arise at the date at which the property legally passes and need not (though it usually will) involve an actual delivery; for example, property may pass although the seller agrees temporarily to store the goods for the buyer. In the case of foreign trade in particular many difficulties will arise in recording transactions on a receivable-payable basis. Statistics of imports and exports are, in fact, made at the moment of compliance with customs formalities for final admission into the country or final exit from the country. When no other information is available it does not seem unreasonable to consider these statistics as an approximation to the information required. Equally, when equipment takes a long time to construct, as in the case of heavy electrical equipment or ships, the increase in the value of work under contract for buyers abroad which is unfinished at the end of the accounting period will be recorded as a positive item in the capital reconciliation account of the producer.

98. This treatment, which differs from that adopted in the case of similar work in progress for normal residents (explained in section 1 (c) of Chapter V below), is not affected if the buyer is under an obligation to make progress payments in advance of delivery and such payments are treated simply as trade credits. The converse case in which the buyer is not obliged to pay until a period following the date of delivery involves, if the date of delivery and of payment fall into different accounting periods, a trade credit advanced by the seller to the buyer. It is convenient to treat hire-purchase in the same way even if in this case the ownership of the goods does not change until the last instalment has been paid.

99. In many cases, such as standing charges, rents and local property taxes, obligations arise to which a time period is attached. The usual practice is to apportion the liability to different periods by reference to the time involved.

100. In the case of indirect taxes an obligation usually arises at some clearly stated point in the manufacture or sale of the goods. This point of time may differ slightly from the time at which payment is due to the government but the discrepancy involved is not likely to be large. In the case of certain subsidies the same is true but examples arise where the position is less clear. An important case is that in which the subsidy takes the form of a difference between the buying and selling price of a government trading service. In this case the subsidy is deemed to be payable to the government trading service at the date when the goods enter its inventory. This treatment implies that such inventories are valued at the selling price charged by the trading service to the buyer.

101. Other transfers do not as a rule give rise to much difficulty. In the case of social security obligations, for example, a time element is usually attached; benefits are frequently payable on a weekly basis. A difficulty, often a very complex one, however, arises in the case of direct taxes and especially income tax. Here several dates can be distinguished; for example, the dates of earning, of assessment, of demand and of payment. The position is complicated by the fact that assessment is frequently based on the earnings of a preceding year and that demand is made at the beginning of the year following assessment. In principle it would be possible to consider the tax payable at the date of the earning of income but in practice this would be difficult and would involve a corresponding change in the accounts of the government sector. Accordingly it is proposed here that taxes should be recorded as of the date when they are due to be paid without penalty, but it would be useful to calculate an addition to tax reserves, included as part of saving, which allows for the difference (modified where necessary by past adjustments needed, for example, where rates of taxation have been changing) between the liability at current tax rates on the current earnings of the period and the amount demanded by the tax authority in the period. Similarly, dividends should be recorded when payable, rather than when earned or declared.

102. The general rule given above accords with that adopted in ordinary business practice. Furthermore, statistics of production and sales reflect essentially the output and, where inventory changes are recorded, the transference of goods and services rather than the corresponding financial settlements which are involved.

As a consequence, over a considerable part of the transactions to be recorded in a system of national accounts, the information ordinarily available will approximate the desired basis of recording. There are however, certain exceptions where important groups of transactions are normally recorded on a receipts and payments basis. The most obvious example relates to the transactions recorded in the accounts of public authorities which are usually on a receipts and payments basis and which, in principle at any rate, require adjustments before they can be introduced into a national accounting system. In a similar way, information on foreign transactions provided by exchange controls frequently relates to actual payments and receipts and also stands in need of adjustment if it is to be fitted into the system described here.

Chapter III

A STANDARD ACCOUNTING STRUCTURE

1. THE STANDARD ACCOUNTS

103. The standard accounts presented in this chapter are essentially an example of the system the properties of which were explained in chapter II. The standard system consists of six accounts which can be described in terms of the sectors and accounts defined in that chapter. In certain cases some rearrangement of the entries has been made largely with the object of making each of the six accounts relate to one of the familiar and important aggregates, such as the national income.

104. (i) The domestic product account (account 1) is the consolidated production account of the given economy. This account, as described in section 5 (c) of the last chapter, would not, however, show the gross domestic product and the expenditure on it as the sum of the debits and credits respectively. To achieve this end two rearrangements have been made. First, subsidies have been transferred from the credit side of the account and are shown as a deduction from the debit side. Second, purchases of goods and services from the rest of the world (the imports of the given country) are transferred from the debit side of the account and are shown as a deduction from the credit side.

105. The credit side of the account shows separately the consumption expenditure of the economy subdivided into private consumption, namely that of households and private non-profit institutions, and into consumption expenditure of the general government. Capital formation is gross and is divided into fixed capital formation and the increase in stocks. In an open economy exports represent another use of product which is final from the point of view of the economy. These exports are listed next in the account. The sum of the items just mentioned gives the total value of goods and services emerging from the productive system but exceeds the value of domestic production by the value of imports incorporated in it. The deduction of these imports gives a total equal to the gross domestic product at market prices.

106. The debit side of the account shows at market prices the sum of the product values added at each stage of production and is equal to the gross domestic product at market prices. The first component is net domestic product at factor cost and to this is added provisions for domestic fixed capital consumption to yield gross domestic product at factor cost. The addition of indirect taxes less subsidies is necessary to obtain gross domestic product at market prices.

107. (ii) The national income account (account 2). This account differs from the appropriation account of enterprises in that the value added in production taking place in other sectors and the whole of the net factor income from abroad are routed through it. This procedure is adopted because it is desirable to have a single presentation of the national income total. For this purpose the total of net domestic product at factor cost is transferred to the national income account from the domestic product account, and all net factor income from abroad is added.

108. The resulting total, that is the net national product at factor cost, is equal in value to the national income, the distribution of which is shown on the debit side of the account. The first three items represent income payments which accrue in various forms to households and private non-profit institutions. The entire net income of unincorporated enterprises, including farmers and independent profesional men, is assumed to be withdrawn from the business system by the owners of these enterprises in their capacity as consumers. Hence the next item enumerated, the saving of corporations, is confined to public and private corporations and co-operatives.

109. General government income from property and entrepreneurship includes, in addition to net rents, interest and dividends received, the profits of government enterprises. The other source of governmental revenue appearing on the debit side of this account is direct taxes on private and public corporations. As interest on consumer debt and on the public debt are included in the above totals either directly or transmuted into other forms of income, for instance saving of corporations, the total of these two interest flows is deducted at the end to arrive at national income.

110. (iii) The domestic capital formation account (account 3) represents the capital reconciliation account of enterprises. In addition to the capital formation of enterprises proper, it includes that undertaken on behalf of households, private non-profit institutions and the general government. The ownership and operation of capital assets is regarded as an enterprise activity and accordingly the acquisition of all assets by all these types of purchaser appears in this account.

111. The debit side of the account accordingly gives a comprehensive statement of gross domestic capital formation.

112. On the credit side appears the source of finance of gross domestic capital formation. This is divided into the finance of gross capital formation in both private and public corporations (composed of saving of corporations, provisions for fixed capital consumption in corporations, net capital transfers to corporations, and net borrowing of corporations), and the finance of gross capital formation in the non-corporate private sector and in the non-corporate public sector. The non-corporate private sector consists of unincorporated enterprises, households and private non-profit institutions. The non-corporate public sector comprises all general government agencies and government enterprises.

113. (iv) The current and capital reconciliation accounts of households and private non-profit institutions (account 4). The current account of households and private non-profit institutions is identical to the corresponding appropriation account in the system described in chapter II. It shows the incomes of households and private non-profit institutions derived from all sources and the disposition of these incomes among consumption expenditure, direct taxes, other current transfers to general government and saving.

114. The saving item is transferred to the capital reconciliation account which is identical with the corresponding account in the system described in para. 93. Apart from the fact that it does not include capital formation, the items entering it are similar to those which appear in the domestic capital formation account and require no further discussion.

115. (v) The current and capital reconciliation accounts of general government (account 5). The current account of general government is identical with the corresponding account described in chapter II and similar to the current account for households and private non-profit institutions. The saving item is transferred to the capital reconciliation account the nature of which needs no further description.

116. (vi) The current and capital reconciliation accounts for external transactions (account 6) represent a consolidation of the external accounts of the various sectors described in chapter II. These accounts do not distinguish between current and capital items. But a distinction of this type, analogous to that for the sectors of the economy is made in account 6.

117. The items included in the current account are essentially those relating to goods and services, in the terminology of the International Monetary Fund, together with international transfer payments of a current nature.

118. The balance of the items in the current account is described here as the surplus of the nation on current account and is transferred to the capital reconciliation account for external transactions. All international transfers of a capital nature are included in the capital reconciliation account, and serve to reconcile the surplus of the nation on current account with its net lending to the rest of the world. This item corresponds to the total movement of capital and monetary gold in the terminology of the International Monetary Fund.

2. RELATIONSHIPS AMONG THE ENTRIES IN THE ACCOUNTS

119. Although there are only six separately numbered accounts in the standard accounting structure, three of these are further subdivided, making nine in all. Also the net borrowing or lending entries in accounts 3, 4, 5, and 6 are not fully articulated. To achieve full articulation of the system, a tenth account would have to be set up, comprising the four borrowing or lending items, totalling zero. Accordingly, ten relationships can be found connecting the entries in the system. These relationships are obtained by equating the sum of the entries on the credit side of a given account to the sum of the entries on the debit side of the same account. It is clear, however, that not all these relationships are independent since the tenth relationship can always be derived if any nine of them are given. Numerous other relationships can also be derived by the substitution from other relationships for one of the terms in a given relationship. The following example shows how these relationships can be manipulated. It can be seen from account 1 that:

net domestic product at factor cost plus provisions for domestic fixed capital consumption plus indirect taxes net of subsidies **equals** consumption expenditure plus gross domestic capital formation plus net exports

Similarly, it can be seen from account 2 that:

national income **equals** net domestic product at factor cost plus net factor income from the rest of the world

If a substitution be made for net domestic product at factor cost from the second of these relationships into the first it can be seen that:

national income **equals** consumption expenditure plus net domestic capital formation plus net exports plus net factor income from the rest of the world less indirect taxes net of subsidies

From account 6 it can be seen that:

net exports plus net factor income from the rest of the world **equals** surplus of the nation on current account less net current transfers from the rest of the world

By combining the last two relationships it can be seen that:

national income **equals** consumption expenditure plus net domestic capital formation plus surplus of the nation on current account less net current transfers from the rest of the world less indirect net of subsidies

120. Any relationships connecting entries in the various accounts which are not obvious from the way the accounts are set up can be worked out on similar lines.

3. SHORT DEFINITIONS OF THE MAIN AGGREGATES

121. While the nature of the main aggregates and their relationship to one another have been described above, it is convenient at this stage to give short definitions of the more important aggregates.

Gross national product at market prices is the market value of the product before deduction of provisions for the consumption of fixed capital, attributable to the factors of production supplied by the residents of the given country. It is identically equal to the sum of consumption expenditure and gross domestic capital formation private and public, and net exports of goods and services plus the net factor incomes received from abroad.

Gross domestic product at market prices is the market value of the product, before deduction of provisions for the consumption of fixed capital, attributable to factor services rendered to resident producers of the given country. It is identically equal to the sum of consumption expenditure and gross domestic capital formation, private and public, and the net exports of goods and services of the given country. It differs from the gross national product at market prices by the exclusion of net factor incomes received from abroad.

Net domestic product at factor cost is the value at factor cost of the product, after deduction of provisions for the consumption of fixed capital, attributable to factor services rendered to resident producers of the given country. It differs from the gross domestic product at market prices by provisions for domestic fixed capital consumption and the exclusion of the excess of indirect taxes over subsidies.

Net national product at factor cost is the value at factor cost of the product, after deduction of provisions for the consumption of fixed capital, attributable to the factors of production supplied by the normal residents of the given country. It is identically equal to the national income.

National income is the sum of the incomes accruing to factors of production supplied by normal residents of the given country before deduction of direct taxation.

Personal income is the income from all sources of households and private non-profit institutions. It consists of compensation of employees, the income of unincorporated enterprises, dividends, interest (net of interest on consumers' debt), net rent and current transfers received by households and private non-profit institutions. It differs from the national income by the exclusion of factor incomes not received by households and private non-profit institutions and the inclusion of current transfers to them.

Disposable income of persons is the income from all sources of households and private non-profit institutions after deduction of direct taxes and other current transfers paid by them. It is identically equal to the sum of the consumption expenditures and saving of households and private non-profit institutions.

THE STANDARD ACCOUNTS

Account 1. Domestic Product

1.1	Net domestic product at factor cost (2.9)	1.5	Private consumption expenditure (4.1)
1.2	Provisions for domestic fixed capital consumption (3.4 + 4.14 + 5.17)	1.6	General government consumption expenditure (5.1)
1.3	Indirect taxes (5.8)	1.7	Gross domestic fixed capital formation (3.1)
1.4	Less subsidies -(5.2)	1.8	Increase in stocks (3.2)
		1.9	Exports of goods and services (6.1)
		1.10	Less imports of goods and services -(6.4)
	Gross domestic product at market prices		Expenditure on gross domestic product

Account 2. National Income

2.1	Compensation of employees (4.7)	2.9	Net domestic product at factor cost (1.1)
2.2	Income from unincorporated enterprises (4.8)	2.10	Net factor income from the rest of the world (6.2)
2.3	Income from property (4.9)		
2.4	Saving of corporations (3.3)		
2.5	Direct taxes on corporations (5.9)		
2.6	General government income from property and entrepreneurship (5.6)		
2.7	Less interest on the public debt (5.7)		
2.8	Less interest on consumers' debt -(4.2)		
	National income		Net national product at factor cost

Account 3. Domestic Capital Formation

3.1	Gross domestic fixed capital formation (1.7)	3.3	Saving of corporations (2.4)
3.2	Increase in stocks (1.8)	3.4	Provisions for fixed capital consumption in corporations (1.2*)
		3.5	Net capital transfers to corporations (5.14 + 6.8 -4.15)
		3.6	Net borrowing of corporations -(4.18 + 5.19 + 6.11)
			Finance of gross capital formation in corporations
		3.7	Finance of gross capital formation in non-corporate private sector (4.12)
		3.8	Finance of gross capital formation in non-corporate public sector (5.13)
	Gross domestic capital formation		Finance of gross domestic capital formation

Account 4. Households and Private Non-profit Institutions

Current Account

4.1	Consumption expenditure (1.5)	4.7	Compensation of employees (2.1)
4.2	Interest on consumers'debt -(2.8)	4.8	Income from unincorporated enterprises (2.2)
4.3	Direct taxes (5.10)	4.9	Income from property (2.3)
4.4	Other current transfers to general government (5.11)	4.10	Current transfers from general government (5.3)
4.5	Current transfers to rest of the world (6.5)	4.11	Current transfers from rest of the world (6.3*)
4.6	Saving (4.13)		
	Disposal of income		Income of households and private non-profit institutions

Capital Reconciliation Account

4.12	Finance of gross capital formation in non-corporate private sector (3.7)	4.13	Saving (4.6)
		4.14	Provisions for fixed capital consumption (1.2*)
		4.15	Net capital transfers from corporations (3.5*)
		4.16	Net capital transfers from general government (5.15)
		4.17	Net capital transfers from rest of the world (6.9)
		4.18	Net borrowing -(3.6 + 5.19 + 6.11)
	Disbursements		Receipts

Account 5. General Government

Current Account

5.1	Consumption Expenditure (1.6)	5.6	Income from property and entrepreneurship (2.6)
5.2	Subsidies -(1.4)	5.7	Less interest on the public debt (2.7)
5.3	Current transfers to households (4.10)	5.8	Indirect taxes (1.3)
5.4	Current transfers to rest of the world (6.5)	5.9	Direct taxes on corporations (2.5)
5.5	Saving (5.16)	5.10	Direct taxes on households (4.3)
		5.11	Other current transfers from households (4.4)
		5.12	Current transfers from rest of the world (6.3*)
	Disposal of current revenue		Current revenue

Capital Reconciliation Account

5.13	Finance of gross capital formation in non-corporate public sector (3.8)	5.16	Saving (5.5)
5.14	Net capital transfers to corporations (3.5*)	5.17	Provisions for fixed capital consumption (1.2*)
5.15	Net capital transfers to non-corporate private sector (4.16)	5.18	Net capital transfers from rest of the world (6.10)
		5.19	Net borrowing -(3.6 + 4.18 + 6.11)
	Disbursements		Receipts

Account 6. External Transactions (rest of the world account)

Current Account

6.1	Exports of goods and services (1.9)	6.4	Imports of goods and services -(1.10)
6.2	Net factor income from rest of the world (2.10)	6.5	Current transfers to rest of the world (4.5 + 5.4)
6.3	Current transfers from rest of the world (4.11 + 5.12)	6.6	Surplus of nation on current account (6.7)
	Current receipts		Disposal of current receipts

Capital Reconciliation Account

6.7	Surplus of nation on current account (6.6)	6.11	Net lending to rest of the world -(3.6 + 4.18 + 5.19)
6.8	Net capital transfers from rest of the world to corporations (3.5*)		
6.9	Net capital transfers from rest of the world to households (4.17)		
6.10	Net capital transfers from rest of the world to general government (5.18)		
	Receipts		Disbursements

Note: An asterisk denotes "part of" item listed.

Chapter IV

THE STANDARD TABLES

122. In this chapter eleven standard tables are set out. In general it is the function of these tables to present detailed and, in some instances, alternative classifications of the major flows included in the set of standard accounts. This information could not be given as a part of that accounting system without overburdening it unduly.

123. The eleven standard tables are related to the entries in the national accounts given in the preceding chapter. The general nature of the tables may briefly be defined as follows:

(i) Expenditure on gross national product (Table I). Down to the total "expenditure on gross domestic product" this table is a slight amplification of the credit side of Account 1. Fixed capital formation is divided into four items, namely that undertaken by private enterprises, by public corporations, by government enterprises and by general government. There is also shown in this table the net factor income payments from the rest of the world in order to indicate the relationship between expenditure on gross domestic and on gross national product.

(ii) Industrial origin of gross domestic product at factor cost (Table II). Gross domestic product at factor cost is equal to net domestic product at factor cost plus provisions for consumption of fixed capital and this table shows its subdivision by industrial origin. Gross domestic product at factor cost for each industry is equal to the sum of employee compensation, profits before direct taxes and provisions for capital consumption, interest and rent originating in the industry. Looked at from the point of view of production the contribution of an industry to gross domestic product is equal to sales, plus the value of goods and services produced by such producers for own consumption or capital formation, plus the value of the increase in stocks, plus subsidies, less current business purchases and indirect taxes. The classification in the table is based to a large extent on the International Standard Industrial Classification. Departures from it are explained in Appendix 1 in which the two classifications are reconciled.

(iii) Nation income by type of organization (Table III). In this table the national income appearing in Account 2 is classified by legal type of organization with further subdivision of some of the items by type of industry and by type of income originating. The operating surpluses appearing in this latter subdivision include all forms of income originating, except the compensation of employees, that is unincorporated enterprise income, net rents, interest and the operating profit of corporations and co-operatives.

(iv) Distribution of the national income (Table IV). This table represents an elaboration of the debit side of Account 2 in which most of the items appearing there are further subdivided.

(v) The finance of gross domestic capital formation (Table V). This table is a consolidation of the domestic capital formation account and the capital reconciliation accounts for households and private non-profit institutions, general government and external transactions. When this consolidation is performed the sources of gross domestic capital formation appear as provisions for the consumption of fixed capital, saving, and the deficit of the nation on current account. In addition, further classifications are given of the first two named sources of finance.

(vi) Composition of gross domestic capital formation (Table VI). This table shows three possible classifications of the debit items in Account 3. These are, respectively: by types of capital goods, by industrial use and by type of purchaser.

(vii) Receipts and expenditures of households and private non-profit institutions (Table VII). This table corresponds to Account 4.

(viii) Composition of private consumption expenditure (Table VIII). This table gives a subdivision of private consumption expenditure which appears in Table VII. In Appendix 2 the detailed composition of the various entries is set out and a reconciliation is given with the Standard International Trade Classification as far as is possible.

(ix) General government revenue and expenditure (Table IX). This table corresponds to Account 5 with a further subdivision of some of the items.

(x) Composition of general government consumption expenditure (Table X). This table shows three possible classifications of general government consumption expenditure appearing in Table IX. These are, respectively: by type of expenditure, by purpose and by type of authority.

(xi) External transactions (Table XI). This table corresponds to Account 6 with a further subdivision of most of the items.

THE STANDARD TABLES

Table I. Expenditure on gross national product

1. Private consumption expenditure
2. General government consumption expenditure
3. Gross fixed capital formation of private enterprises
4. Gross fixed capital formation of public corporations
5. Gross fixed capital formation of government enterprises
6. Gross fixed capital formation of general government
7. Increase in stocks

Expenditure on consumption and gross capital formation

8. Exports of goods and services

Expenditure on gross domestic product and imports

9. Less imports of goods and services

Expenditure on gross domestic product

10. Net factor income payments from the rest of the world

Expenditure on gross national product

Table II. Industrial origin of gross domestic product at factor cost

1. Agriculture, forestry, hunting and fishing
   a. Agriculture
   b. Forestry and logging
   c. Hunting, trapping and game propagation
   d. Fishing
2. Mining and quarrying
   a. Coal mining
   b. Metal mining
   c. Crude petroleum and natural gas
   d. Stone quarrying, clay and sand pits
   e. Other non-metallic mining and quarrying
3. Manufacturing
   a. Food
   b. Beverages
   c. Tobacco
   d. Textiles
   e. Footwear, other wearing apparel and made-up textile goods
   f. Wood and cork products, except furniture
   g. Furniture and fixtures
   h. Paper and paper products
   i. Printing, publishing and allied industries
   j. Leather and leather products except footwear
   k. Rubber products
   l. Chemicals and chemical products
   m. Products of petroleum and coal
   n. Non-metallic mineral products, except products of petroleum and coal
   o. Basic metal industries
   p. Metal products except machinery and transport equipment
   q. Machinery except electrical machinery
   r. Electrical machinery, apparatus, appliances and supplies
   s. Transport equipment
   t. Miscellaneous manufacturing industries
4. Construction
5. Electricity, gas, water and sanitary services
   a. Electric light and power
   b. Gas manufacture and distribution
   c. Steam heat and power, water and sanitary services

Table II (continued)

6. Transport, storage and communication
   a. Water transport
   b. Railroad transport
   c. Other transport and storage
   d. Communication
7. Wholesale and retail trade
   a. Wholesale trade
   b. Retail trade
8. Banking, insurance and real estate
   a. Banks and other financial institutions
   b. Insurance
   c. Real estate
9. Ownership of dwellings
10. Public administration and defence
11. Services
    a. Education
    b. Medical and health
    c. Recreation and entertainment
    d. Domestic services
    e. Hotels and restaurants
    f. Laundries, barber shops and other personal services
    g. Religious organizations, welfare institutions, legal services, trade associations, etc.

Gross domestic product at factor cost

Table III. National income by type of organization

1. Private enterprises
   a. Agriculture
      (i) Compensation of employees
      (ii) Operating surplus of corporations
      (iii) Operating surplus of unincorporated enterprises
   b. Other industries
      (i) Compensation of employees
      (ii) Operating surplus of corporations
      (iii) Operating surplus of unincorporated enterprises
2. Public corporations
   a. Compensation of employees
   b. Operating surplus
3. Government enterprises
   a. Compensation of employees
   b. Operating surplus
4. Households and private non-profit institutions
5. General government
6. Net factor income payments from the rest of the world

National income

Table IV. Distribution of the national income

1. Compensation of employees
   a. Wages and salaries
   b. Pay and allowances of members of the armed forces
   c. Employers' contributions to social security

Table IV (continued)

2. Income from farms, professions and other unincorporated enterprises received by households
   a. Farm income
   b. Income of professions
   c. Income of other unincorporated enterprises
3. Income from property received by households and private non-profit institutions
   a. Rent
   b. Interest
   c. Dividends
   d. Corporate transfer payments to households and private non-profit institutions
4. Saving of corporations
   a. Saving of private corporations
   b. Saving of public corporations
5. Direct taxes on corporations
   a. Private corporations
   b. Public corporations
6. General government income from property and entrepreneurship
   a. Profits of government enterprises
   b. Rent, interest and dividends
7. Less interest on the public debt
8. Less interest on consumers' debt

National income

Table V. The finance of gross domestic capital formation

1. Provisions for the consumption of fixed capital
   a. Private enterprises
   b. Public corporations
   c. Government enterprises
   d. General government
2. Saving
   a. Saving of general government
      (i) Central government
      (ii) State governments
      (iii) Local authorities
      (iv) Social security funds
   b. Saving of public corporations
   c. Saving of private corporations
   d. Saving of households and private non-profit institutions
3. Deficit of the nation on current account

Gross domestic capital formation

Table VI. Composition of gross domestic capital formation

A. By type of capital good
   1. Fixed capital formation
      a. Land
      b. Dwellings
      c. Non-residential buildings
      d. Other construction and works
      e. Transport equipment
      f. Machinery and other equipment
   2. Increase in stocks
      a. Raw materials
      b. Work in progres
      c. Finished goods held for sale

Gross domestic capital formation

Table VI (continued)

B. By industrial use
   1. Fixed capital formation in:
      a. Agriculture, forestry and fishing
      b. Mining and quarrying
      c. Manufacturing
      d. Construction
      e. Electricity, gas, water and sanitary services
      f. Transport, storage and communications
      g. Wholesale and retail trade
      h. Banking, insurance and real estate
      i. Ownership of dwellings
      j. Public administration and defence
      k. Services
   2. Increase in stocks in:
      a. Agriculture, forestry and fishing
         (i) Livestock
         (ii) Other
      b. Mining, manufacturing and construction
      c. Wholesale trade
      d. Retail trade
      e. Public administration and defence
      f. Other

Gross domestic capital formation

C. By type of purchaser
   1. Fixed capital formation
      a. Private enterprises
      b. Public corporations
      c. Government enterprises
      d. General government
   2. Increase in stocks
      a. Private enterprises
      b. Public corporations
      c. Government enterprises
      d. General government

Gross domestic capital formation

Table VII. Receipts and expenditures of households and private non-profit institutions

1. Compensation of employees
2. Income from property and entrepreneurship
3. Less interest on consumers' debt
4. Current transfers from general government
5. Current transfers from the rest of the world

Income

6. Consumption expenditure
7. Direct taxes
8. Other current transfers to general government
9. Current transfers to the rest of the world

Expenditures

10. Saving
11. Provisions for fixed capital consumption in the non-corporate private sector
12. Net capital transfers received
13. Less finance of gross capital formation in the non-corporate private sector

Net lending

Table VIII. Composition of private consumption expenditure

1. Food
   a. Bread and cereals
   b. Meat
   c. Fish
   d. Milk, cheese and eggs
   e. Oils and fats
   f. Fruit and vegetables
   g. Sugar, preserves and confectionery
   h. Coffee, tea, cocoa, etc.
   i. Other food
2. Beverages
   a. Non-alcoholic
   b. Alcoholic
3. Tobacco
4. Clothing and other personal effects
   a. Footwear
   b. Clothing other than footwear
   c. Other personal effects
5. Rent, rates and water charges
6. Fuel and light
7. Furniture, furnishings and household equipment
   a. Furniture and furnishings
   b. Household equipment
8. Household operation
   a. Domestic services
   b. Non-durable household goods
   c. Household services
9. Personal care and health expenses
   a. Personal care
   b. Health expenses
10. Transport and communication
    a. Personal transport equipment
    b. Operation of personal transport equipment
    c. Purchased transport
    d. Communication
11. Recreation and entertainment
    a. Entertainment
    b. Hotels, restaurants and cafés
    c. Books, newspapers and magazines
    d. Other recreation
12. Miscellaneous services
    a. Financial services
    b. Education and research
    c. Other services
13. Less value of gifts in kind sent abroad (net)

Private consumption expenditure in the domestic market

14. Expenditure abroad of residents
15. Less expenditure in the country of non-residents

Consumption expenditure of households and private non-profit institutions

Table IX. General government revenue and expenditure

1. Income from property and entrepreneurship
2. Less interest on the public debt
3. Indirect taxes
4. Direct taxes on corporations

Table IX (continued)

5. Direct taxes on households and private non-profit institutions
   a. Total contributions to social security
   b. Other direct taxes
6. Other current transfers from households and private non-profit institutions
7. Current transfers from the rest of the world

Current revenue

8. Consumption expenditure
9. Subsidies
10. Current transfers to households and private non-profit institutions
    a. Education and research
    b. Health
    c. Social security and assistance
    d. Other transfers
11. Current transfers to the rest of the world

Current expenditure

12. Saving
13. Provisions for fixed capital consumption in non-corporate public sector
14. Net capital transfers received from the rest of the world
15. Capital transfers from households and private non-profit institutions
    a. Death duties etc.
    b. Capital levies
    c. Other
16. Capital transfers from corporations
17. Less capital transfers to households and private non-profit institutions
18. Less capital transfers to corporations
19. Less finance of gross capital formation in non-corporate public sector

Net lending

Table X. Composition of general government consumption expenditure

A. By type of expenditure
   1. Compensation of employees
      a. Wages and salaries
      b. Pay and allowance of members of the armed forces
   2. Purchases from enterprises and abroad
      a. Military purposes
      b. Civilian purposes
   3. Less purchases by households and enterprises

General government consumption expenditure

B. By purpose
   1. General administration
   2. Defence
   3. Justice and police

Table X (continued)

4. Education and research
5. Health services
6. Special welfare services
7. Transport and communication facilities
8. Other services

General government consumption expenditure

C. By type of authority
 1. Central government
 2. State governments
 3. Local authorities
 4. Social security funds

General government consumption expenditure

Table XI. International transactions

1. Exports of goods and non-factor services
 Recorded merchandise exports f.o.b.
 Plus freight and insurance received by residents
 Plus or minus other adjustments
 a. Exports, freight and insurance (balance of payments f.o.b. basis)
 b. Transportation n.e.s.
 c. Passenger fares
 d. Travel
 e. Other non-factor services
2. Factor services
 a. Investment income
 b. Other factor services

Table XI (continued)

3. Current transfers from the rest of the world
 a. To households and non-profit institutions
 b. To general government

Current receipts

4. Imports of goods and non-factor services
 Recorded merchandise imports c.i.f.
 Less freight and insurance paid to residents
 Plus or minus other adjustments
 a. Imports, freight and insurance (balance of payments f.o.b. basis)
 b. Transportation n.e.s.
 c. Passenger fares
 d. Travel
 e. Other non-factor services
5. Factor services
 a. Investment income
 b. Other factor services
6. Current transfers to the rest of the world
 a. From households and non-profit institutions
 b. From general government

Disposal of current receipts

7. Surplus of the nation on current account
8. Capital transfers from the rest of the world
 a. To households and non-profit institutions
 b. To general government
9. Capital transfers from the rest of the world to corporations
10. Less capital transfers to the rest of the world
 a. From households and non-profit institutions
 b. From general government
11. Less capital transfers to the rest of the world from corporations

Net lending to the rest of the world

Chapter V

DEFINITIONS OF THE FLOWS IN THE STANDARD NATIONAL ACCOUNTS AND TABLES

124. This chapter gives the definitions of the various flows entering into the standard national accounts and tables presented in chapters III and IV. The basic concepts and definitions which determine the character of the system have already been set out in chapter II and the present chapter is therefore devoted only to the various problems which arise when these basic definitions are translated into their empirical correlates.

125. Broadly speaking, the flows are discussed in the order in which they appear in the system of accounts, the first four sections being, in fact, definitions of the flows appearing in Accounts 1 and 2. The remaining items are described in the last three sections defining transfer payments and financial transactions.

1. EXPENDITURE ON GROSS DOMESTIC PRODUCT (Account 1 and Table I)

126. The main flows of final expenditure are shown on the credit side of Account 1 and are presented in greater detail in Tables VI, VIII, X and XI.

(a) Private Consumption Expenditure (flow 1.5 and Table VIII)

127. This flow records the value of final expenditure by households and private non-profit institutions on current goods and services less sales of similar goods and services (mainly second-hand transactions) plus the value of gifts in kind (net) received from the rest of the world. Current expenditure is defined, for this sector, to include the purchase of goods, whatever their durability, with the exception of land and buildings. In defining this flow it is necessary to decide first what commodities purchased by or otherwise accruing to households are to be treated as final and, secondly, how final expenditures are to be allocated between different sectors.

128. As regards the first of these questions, the rules to be followed have already been set out in sections 2 (a) and 2 (b) of chapter II, and important cases of specific imputations are described later in this chapter and in appendix 2.

129. As regards the second question it is necessary to consider the allocation of expenditure between the current accounts of households and general government. The problem arises since in numerous cases purchases are actually debited to one or the other of these accounts although the other contributes wholly or partly to their finance. In such cases the general principle adopted here is that the purchase should be entered as an expenditure of the sector which actually makes the purchase. Thus, for example, where there is no national health service a government agency may nevertheless provide free medicine to the poorer members of the community. In such a case the cost of the free medicine is regarded as a purchase by the general government sector and is entered in general government consumption expenditure. Where a national health service is in existence the treatment is a little more complicated. If the government subsidises the individual the total of medical and hospital charges is included in private consumption expenditure and a current transfer from government to households is made equal to the amount of the subsidy. If the subsidy is paid directly to the doctors and hospitals only the amount actually paid by households is included in private consumption expenditure. Where a purely nominal charge is levied on households under a national health plan the general government sector should be regarded as the purchasing sector and the nominal charge entered as a transfer from households to general government.

130. This general principle may be applied to the treatment of fees and similar charges paid by households to general government. These fees and charges are here grouped together under two heads. The first comprises purchases from general government, such as the purchase of catalogues and postcards from museums, which are comparable with purchases from enterprises since the decision to purchase rests with the individual and is in no circumstances required of him by the public authority. This category is included in consumption expenditure. In most circumstances the amounts involved will be small since if any purchases of this kind become at all large it is likely that the government agency concerned will be classed as a public enterprise. The second category comprises payments made in respect of services the primary purpose of which is to serve as an instrument of government policy and which are compulsory in the only circumstances in which they are useful. Examples of such fees are those payable in respect of passports, driving tests and applications to the courts. School fees and charges required under a general medical service payable to general government are also included in this category. Such charges are treated as transfers from households to general government and do not appear in private consumption expenditure.

131. Charges, such as motor vehicle duties, are mainly made for revenue purposes and do not involve the provision of a service to the payer. This category of charge is treated as indirect taxation and is included in consumption expenditure as part of the payment to productive activity which in this system is made responsible for the transfer of all indirect taxes to general government.

132. A classification of consumption expenditure by type of commodity and service purchased by households and private non-profit institutions is given in

Table VIII. Some general problems of allocation and valuation are discussed below, while the detailed composition of these groups in terms of specific goods and services is given in appendix 2 where the groups used here are also related to the Standard International Trade Classification.

133. Some instances arise in which the products reaching consumers are a composite of two or more goods or services which it is convenient to keep distinct. The most important cases are the food, beverages and tobacco sold together with specific services in restaurants, hotels and boarding houses. The food, beverages and tobacco purchased in these places are included in items 1, 2 and 3 in Table VIII respectively and are valued at ordinary retail prices while the balance of consumer expenditures in such places is included in item 11.b.

134. Similarly, the total expenditure of boarding schools, colleges, clubs and other private non-profit institutions is allocated to the respective product groups (such as education) after a deduction for the food, etc. supplied by them which is included in item 1, etc.

135. Dealers' margins on second-hand transactions are allocated to the respective product groups.

136. The following main items of consumption expenditure are shown in Table VIII.

Food: All food including purchases in restaurants, etc., consumption of own products by producers and food provided to employees including members of the armed forces.

Beverages: Includes soft drinks and all alcoholic beverages.

Tobacco.

Clothing and other personal effects: All clothing including footwear and personal effects such as leatherware, jewellery and watches.

Rent, rates and water charges: All gross rent paid by tenants, imputed gross rent on owner-occupied dwellings, and indoor repairs and upkeep paid for by tenants.

Fuel and light: Purchase of coal, gas, electricity, firewood, etc.

Furniture, furnishings and household equipment: All purchases of durable household goods such as furniture, household textiles, electrical appliances, wireless sets, etc.

Household operation: Includes wages paid to domestic servants, purchases of non-durable household goods and all repair, insurance and similar services incidental to durable household goods and clothing.

Personal care and health expenses: Purchases of toilet articles and medicines, payments to doctors and hospitals.

Transport and communication: Purchases and operating cost of transport equipment, purchases of transport and communication services.

Recreation and entertainment: Expenditures on entertainment, hotels, restaurants, hobbies, and purchases of books and other printed matter.

Miscellaneous services: Actual and imputed bank charges, operating expenses of life insurance companies, administrative charges of private pension schemes, household finance companies and other financial institutions rendering services to households, education and research and various personal services.

Expenditure abroad of residents: All expenditure on foreign travel except that part which is charged to business expense.

137. Since expenditure of non-residents in the country and gifts in kind sent abroad normally cannot be deducted from each item of private expenditure, adjustments in respect of both these items are made in Table VIII.

(b) General government consumption expenditure (flow 1.6 and Table X)

138. This flow represents the current expenditure on goods and services undertaken by general government. It comprises compensation of employees, purchases by general government from enterprises and from the rest of the world less purchases from general government of goods and services, other than surplus stores, by enterprises and households.

139. In defining general government consumption expenditure it is necessary to decide what purchases are to be treated as consumption expenditure as distinct from capital formation. In this connexion expenditure for defence purposes, excluding civil defence, is treated as consumption expenditure whereas all expenditure on capital formation for civilian purposes, as defined in flow 1.7, is excluded from this flow and included with gross domestic capital formation.

140. The allocation of final expenditures between households and government was discussed in connexion with flow 1.5. The principle outlined there determines the content of general government consumption expenditure as compared with private consumption expenditure.

141. Transfers between general government and the rest of the world whether in cash or in kind are excluded from the consumption expenditure of the government making the grant and are treated as international transfers except that military equipment purchased for use by another government is included in the consumption expenditure of the government making the purchase.

142. In Table X general government consumption expenditure is classified (A) by type of expenditure, (B) by the purpose for which the expenditure is incurred and (C) by the type of government authority which undertakes the expenditure. These classifications are defined as follows.

(A) Type of expenditure

Compensation of employees (item A.1)

Wages and salaries (item A.1.a)

143. This item comprises the remuneration of general government employees except that of the members of the armed forces included in the follow-

ing item (A.1.b). Wages and salaries include social security contributions and contributions to pension funds in respect of government employees (or, in lieu, the pensions actually paid).

Pay and allowances of members of the armed forces (item A.1.b)

144. This item includes all remuneration of the members of the armed forces regardless of the type and duration of their service. Such payments include the value at cost of food and standard clothing (including uniforms) provided free.

Purchases from enterprises and abroad (item A.2)
Military purposes (item A.2.a)

145. This item comprises all purchases for military purposes other than the pay and allowances of members of the armed forces. It includes such expenditure as that on arms, munitions, aircraft, road vehicles, ships, the cost of new buildings for military use and of military works, such as the construction of military airfields, training grounds, etc., together with all repair and maintenance of military buildings and works and other operating expenses in connexion with military service.

Civilian purposes (item A.2.b)

146. This item comprises all purchases for civilian purposes other than compensation of general government employees. It includes the cost of operating services such as schools, hospitals, social service, police forces, roads and other transport installations including gross rent in respect of buildings.

147. Such rent comprises all rent of buildings used by the civilian branches of general government, including the imputed gross rent on buildings owned and occupied by the government. Imputed rent is only estimated in respect of buildings such as office premises, schools and hospitals but not in respect of historical buildings, museums, etc. Provisions for the depreciation of government buildings are included in the imputed gross rents.

148. No imputed interest or depreciation is charged in respect of other general government construction such as roads and traffic installations.

Purchases by households and enterprises (item A.3)

149. Purchases from general government by households and enterprises, which are to be deducted from purchases by general government, comprise the sale of goods and services by general government agencies which, although not treated as enterprises, sell goods and services to the private sector of the economy. Examples of such transactions are admission fees and sales of catalogues and postcards by museums.

150. Sales of surplus stores are excluded from this item and treated in flow 1.8 below.

(B) Purpose of expenditure

151. In classifying general government consumption expenditure according to its purpose two general remarks should be kept in mind. First, sales of goods and services (item A.3 above) are deducted from the expenditure on the appropriate government activity and second, the contributions to pension schemes (or pensions actually paid) in respect of government employees are allocated together with wages and salaries to the appropriate government service.

General administration (item B.1)

152. Expenditure for general administration is shown under this heading. It comprises expenditure connected with heads of state, parliaments, departments and administrative offices. It includes expenditure on offices charged with the control of business, the foreign office, the fiscal administration (including tax, customs, treasury and audit departments), the administration of social security schemes, the supply of information to the public and similar general services.

Defence (item B.2)

153. This item comprises all expenditure on the armed forces and in the running of defence departments including all capital expenditure undertaken for defence purposes but excluding civil defence.

Justice and police (item B.3)

154. This item includes expenditure on law courts, police and prisons.

Education and research (item B.4)

155. This item includes expenditure on schools, technological institutes, universities and general research and the costs of operating public libraries and museums.

Health services (item B.5)

156. This item includes the expenditure on the operation of hospitals and medical services and the benefits in kind under a general health scheme.

Special welfare services (item B.6)

157. This item includes the maintenance, treatment and education of the deaf, dumb and blind, mental defectives and the aged, and outlays on child welfare and similar services.

Transport and communication facilities (item B.7)

158. The outlays for the maintenance and repair of roads, canals and transport facilities and equipment are shown under this heading. They include maintenance and repair of installations for the control of road, sea and air traffic such as lighthouse and piloting services, and expenditure on radio and meteorological services provided in conjunction with transport facilities.

Other services (item B.8)

159. This item comprises all other current government expenditure. It includes expenditure connected with public parks, sanitation services, fire services, religious activities and government pensions not included elsewhere.

(C) Type of authority

160. This classification shows the expenditure undertaken by the various types of government authorities. The number of government authorities will differ from country to country but in general the types of authority are central, state and local govern-

ments and the administration of social security funds if independent funds have been set up for this purpose. All expenditures incurred by state and local governments should be stated regardless of whether any loans or grants-in-aid are received from the central government.

(c) Gross domestic capital formation (flows 1.7 and 1.8 and Table VI)

161. Gross domestic capital formation represents the gross value of the goods which are added to the domestic capital stock of the nation. It comprises both expenditure on the acquisition of fixed assets and the value of the physical change in stocks. Detailed information regarding capital formation is set out in table VI, which shows both the types of capital goods which have been acquired, the industrial uses to which these capital goods have been put and the institutions which have undertaken the capital outlay. This information is given both for fixed asset formation and increase in stocks.

162. It is convenient, therefore, to follow these classifications in defining capital formation more precisely.

(1) Gross fixed capital formation (flow 1.7)

163. Gross fixed capital formation includes the value of the purchases and own-account construction of fixed assets (land, civilian construction and works, machinery and equipment) by enterprises, private non-profit institutions in their capacity as landlords and general government. Non-transportable fixed assets are included only if they are located in the territory of the country.

164. This component also includes the value of the change in work in progress on domestic account in dwellings and non-residential buildings. Changes in the work in progress on other durable goods are included with changes in stocks.

165. In valuing fixed capital formation only expenditures directly related to its production or acquisition are included. These expenditures comprise the purchase price of the capital goods including customs and other taxes plus transportation, delivery and installation charges as well as all direct preliminary outlay connected with the capital formation such as site clearance, fees paid to architects and engineers and all legal costs, including fees paid to government. Indirect expenditures such as flotation costs including underwriters' fees and commissions and expenses connected with special advertising campaigns are excluded from capital formation and treated as a current expenditure in the year in which they are incurred even if they are not written off in one accounting period by the businesses that made them.

166. The products included in capital formation are described in greater detail in the statement of the product classification given below. As a general rule all durable producers' goods with an expected lifetime of more than one year, which accordingly are not entirely written off in the accounts of the year in which they are purchased, should be included. In practice, however, it is convenient to exclude from capital formation and to charge to current expense, small items, many of which will be recurrent, such as expenditure on hand tools, motor tires, office desk equipment and the like, irrespective of their lifetime. In particular this is the case with those goods which most enterprises would customarily charge to current expense.

167. A similar problem arises as regards the treatment of expenditures on repair and maintenance. In principle, expenditure on repairs over and above what is needed to keep the capital goods in a state of constant repair should be included. As a practical solution, however, it will often only be possible to include instead the costs of major alterations and renewals. Thus, even repairs which involve the replacement of durable parts with a lifetime longer than one year will generally have to be excluded.

168. The detailed classifications of gross fixed capital formation in Table VI are defined as follows.

Section A shows gross fixed capital formation classified into the following groups.

Land (item A.1.a).

169. This item comprises net expenditures, including legal and other transfer fees, connected with the acquisition of land. Land is here defined as including inland waters and natural sub-soil deposits but as excluding buildings on sites. Land reclamation is included here if it represents an addition to total land availability. Expenditures on reclamation resulting from floods, etc., should be included in item A.1.d "Other construction and works".

Dwellings (item A.1.b)

170. This item represents all expenditure on new construction and major alterations to residential buildings including the value of the change in work in progress, but excluding the value of the land before improvement. The expenditure covers the cost of external and internal painting and all permanent fixtures such as furnaces, fixed stoves, central heating and water supply installations and all equipment customarily installed before renting. Furniture and household equipment are excluded from this item and included in consumption expenditure. Where transactions in existing buildings are concerned, if it is impossible to separate the value of the land from that of the building then the total value of land and building should be included in either "dwellings" or "non-residential buildings". As indicated in para. 165 legal charges, etc., should be included in fixed capital formation.

Non-residential buildings (item A.1.c)

171. This category comprises all buildings other than dwellings. It includes industrial buildings, warehouses, office buildings, stores, restaurants, hotels, farm buildings and buildings for religious, educational and similar purposes.

Other construction and works (item A.1.d)

172. This item comprises such projects as the permanent ways of railroads, subways and tunnels, marine construction, piers and other harbour facilities, car parking facilities, airports, athletic fields, roads, streets and sewers, electricity transmission lines, gas mains and pipes and communication sys-

tems such as telephone and telegraph lines, etc. The borderline between current and capital expenditures is very difficult to draw for construction and works on farms, but large expenditures for irrigation projects, flood control, forest clearance, land reclamation resulting from floods, etc., should always be considered as capital expenditure.

Transport equipment (item A.1.e)

173. Transport equipment includes ships, motor cars, trucks and commercial vehicles, aircraft, tractors for road haulage, vehicles used for public transport systems, railway and tramway rolling stock, carts and wagons.

Machinery and other equipment (item A.1.f)

174. This item covers all capital expenditure not included in the above groups. It includes power-generating machinery, agricultural machinery and implements, tractors (other than for road haulage), office machinery, equipment and furniture, metal working machinery, mining, construction and other industrial machinery and equipment and instruments used by professional men. Items of small value such as hand tools and office desk equipment, even though possessing a long life, are excluded on practical grounds if the customary accounting procedure is to treat them as a current expense.

175. In Section B the capital goods are classified according to industrial use. The classification of industries adopted there is the same as in Table II except that only the major groups are shown. Dwellings bought or built by enterprises for their own employees should be classified under the industry "ownership of dwellings".

176. Section C shows gross fixed capital formation undertaken for private enterprises, including households and private non-profit institutions in their capacities as landlords, public corporations, government enterprises and general government. In this classification government capital formation excludes works carried out for the private sector of the economy with financial support from the government in the form of loans and grants.

177. In the classifications of fixed capital formation by industry of use and sector of purchase, acquisitions of land should be treated as acquisitions of used capital assets. Acquisitions by the industry "public administration and defence" will include the value of land purchased or rented for defence purposes while acquisitions by the industry "ownership of dwellings" will include the value of land purchased or rented for residential or private recreational purposes.

178. In setting out the classifications in Sections B and C, it is necessary to decide whether gross or net flows or both are to be shown. Although the movement of already existing capital goods between enterprises does not increase the total quantity of capital goods, it does affect the capital stock of individual enterprises, both in physical and in value terms. The use of either gross or net flows give identical results for the economy as a whole but may differ substantially for individual sectors. Since gross flows are more realistic, acquisitions of capital goods should be defined as all purchases of new and used assets less sales of used assets.

179. Changes in the work in progress in dwellings and non-residential buildings included in fixed capital formation should be treated as capital formation in the sectors or industries which are to use the assets when completed.

(2) Increase in stocks (flow 1.8)

180. The value of the change in stocks represents the value of the physical change in raw materials, work in progress (other than the work in progress on dwellings and non-residential buildings which are included in fixed capital formation) and finished goods which are held by enterprises and in government stockpiles.

181. Care should be taken to see that the coverage of stock changes agrees with the definition of imports and exports.[1] This involves including the changes in stocks of commodities owned by normal residents but located abroad and excluding the changes in stocks of commodities owned by non-residents and held in the given country.

182. Changes in farm stocks such as grain and livestock are included in this flow, while increases in natural resources due to growth, as in the case of forests and standing crops, and to new discoveries, as in the case of mineral deposits, are excluded from capital formation. Changes in stocks in the hands of marketing authorities are included here.

183. Net increases in private hoards of gold should be included in this flow and not regarded as an element of foreign investment. Increases in such private hoards should be recorded separately whenever their value is substantial.

184. In certain cases it may be found convenient to include certain government transactions in this flow instead of treating them as either government consumption or stocks held by public enterprises. Changes in these general government stocks are shown in item B.2.e (alternatively C.2.d) of Table VI. This item is intended primarily to reflect the movements in those stocks held on government account which are not acquired and regulated as a link in the current economic operations and policies of the government (such stocks would here be treated as stocks of government enterprises) but are related to purposes of special importance to the nation such as building up stocks of strategic materials or emergency stocks of important commodities. Sales of other goods which were originally bought for government consumption will ordinarily be treated as a deduction from current purchases of goods and services when such transactions are part of the regular operations of the administration. In the case of large extraordinary disposals of goods such as the sales of surplus stores after a war, it is, however, more appropriate to treat these sales as a decrease in general government stocks (even if they were originally charged to current account) so as to avoid a distorted picture of

[1] Cf. Balance of Payments Manual (International Monetary Fund, Third Edition, July 1961, Washington, D.C.), Table I.

government consumption. Sales of surplus stores therefore appear negatively in this item.

185. In principle, the value of the physical change in stocks which is entered here represents the difference between gross additions to stocks in the course of the period valued at purchase prices or cost and gross withdrawals from stocks valued at the prices current when the withdrawals are made (see section 3.b of chapter II). In practice, however, it may not always be possible to adhere strictly to this evaluation procedure and instead the difference between stocks at the beginning and at the end of the period, both valued at some average of prices ruling over the period, may have to be used as an approximation.

186. The value of changes in stocks as calculated by these methods will frequently differ from the inventory changes actually shown in business accounts which are established on other principles of stock evaluation, consequently the profits calculated for national accounts purposes will also differ from actual business profits. The difference between these two calculations of profit represents capital gains or losses arising from differences between the current value of stocks charged to current expense and the value at which they appear in the books of the enterprise.

187. These capital gains and losses are not shown in the accounts and tables but since the unadjusted figures for stock changes and profits may be useful for several purposes it is suggested that countries which prepare estimates of this adjustment should indicate its amount.

188. Sections B and C of Table VI show the increase in stocks classified in the same way as fixed capital formation except that the industrial classification in section B is given in a slightly different amount of detail.

(d) Exports of Goods and Services (flow 1.9 and item 1 of Table XI)

189. This flow represents the value of goods and services sold to the rest of the world. These goods and services comprise merchandise and charges made for the provision of transport, insurance and other services. The flow includes the value of gifts in kind and other exports which are financed by means of international transfers but exclude the value of military equipment transferred between governments. The definitions of the various components of this flow are in general the same as those adopted by the International Monetary Fund and outlined in its Balance of Payments Manual.

190. In Table XI several components of this flow are shown separately. These items are defined as follows:

Exports, freight, and insurance (item 1.a)

This item records the gross movement of goods from domestic to foreign ownership, together with freight and insurance received by domestic firms from overseas firms, and it is composed (as indicated in the table) of recorded merchandise exports f.o.b. plus freight and insurance received by residents plus (or minus) other adjustments made for balance of payments purposes. This item corresponds to credit items 1, 2 and 3 in Table A of the Balance of Payments Manual with the exception of military equipment transferred from the government to other governments. Sales to foreign visitors are excluded from exports of merchandise. In accordance with international standards for recorded trade statistics, recorded merchandise exports includes sales to foreign ships (bunkers, etc.). For balance of payments purposes such sales are included as a negative entry in "other adjustments" and are included as a positive entry in item 1.b (transportation).

Transportation (item 1.b)

This item corresponds to credit items 4.2, 4.3 and 4.4 in Table A of the Balance of Payments Manual.

Passenger fares (item 1.c)

This item corresponds to credit item 4.1 in Table A of the Balance of Payments Manual.

Travel (item 1.d)

This item corresponds to item 5 of Table A of the Balance of Payments Manual.

Other non-factor services (item 1.e)

This item relates to the non-factor services in items 7 and 8 of Table A of the Balance of Payments Manual. The relevant sub-items will be found in Tables VII and VIII of the Balance of Payments Manual.

As regards insurance transactions, the treatment adopted in the Balance of Payments Manual is not wholly appropriate from the standpoint of the national accounts. In principle there should be included under this heading the administrative expenses including profits, which are not necessarily the same as the excess of premiums received over claims paid. This excess is reflected in the entries adopted in the Balance of Payments Manual which shows in exports premiums plus claims received and in imports premiums plus claims paid.

(e) Imports of Goods and Services (flow 1.10 and item 4 of Table XI)

191. This flow comprises the value of goods and services purchased by the nation from the rest of the world. It is defined and classified in a similar manner to that adopted for exports of goods and services in flow 1.9.

192. In accordance with international standards recorded merchandise imports are shown c.i.f. Freight and insurance paid to domestic transport and insurance firms are deducted and other adjustments are added to produce balance of payments imports, freight and insurance. This latter item represents total payments to the rest of the world for merchandise imports. Where recorded imports are shown f.o.b. a comparable estimate is obtained by adding freight and insurance paid to foreign transport and insurance firms and other adjustments to recorded merchandise imports f.o.b.

2. GROSS DOMESTIC PRODUCT

193. The expenditure items defined in the previous section will, when added up, be equal to gross domestic product at market prices. The concept of gross domestic product has been defined and related to the other major aggregates in chapters II and III.

194. Table II shows a detailed classification of the gross domestic product by the industries in which it originates. In order to avoid the distortions to the contributions of the trades which follow from the unequal incidence of indirect taxes and subsidies, the total which has been classified in Table II is the gross domestic product at factor cost (flow 1.1 plus flow 1.2). The adjustments in respect of indirect taxes and subsidies which are necessary in order to arrive at this concept are defined in section 5 below.

195. The entry in Table II for each trade is equal to its contribution to gross domestic product, that is, the sum of compensation of employees, operating surplus and provisions for the consumption of fixed capital, irrespective of whether any part of these factor incomes accrue to normal residents or to foreigners. Correspondingly, all factor incomes received by residents from abroad are excluded from the table.

196. The basic definitions of income and product which underlie these contributions are set out in chapter II and only the main principles are summarized here.

197. In the case of business enterprises the contribution is equal to the sum of compensation of employees, profit, interest, net rent and provisions for the consumption of fixed capital originating in the enterprise or, if analysed from the point of view of production, to the value of the sales at market prices plus the value of the physical increase in stocks less the market value of all current purchases from other enterprises and all net indirect taxation. Goods or services produced in the enterprise for capital formation in the enterprise or for consumption by the owner or his employees are included in accordance with the rules set out in chapter II.

198. This evaluation of the contribution to domestic product is valid in the case of both private and public enterprises except that, as regards the latter, the extent to which their surpluses or deficits are to be treated as indirect taxes or subsidies has to be decided (see section 4 below).

199. In those cases where output is not sold at a clearly recognizable market price a problem of evaluation arises. Apart from the cases mentioned in chapter II, this is particularly so as regards banks and similar financial intermediaries which maintain themselves principally by virtue of the margin between interest rates on deposits and loans and which, therefore, would show a negligible or even negative contribution to domestic product if this were evaluated on the basis of the treatment adopted for other enterprises. The contribution of banks, etc., to gross domestic product is here evaluated as the sum of compensation of employees, profits, net rent and provisions for the consumption of fixed capital by imputing to depositors a service charge equal to the excess of investment income accruing to these institutions over deposit interest accruing to their depositors. This imputed service charge is then divided between enterprises and households. The enterprise share becomes a cost to enterprise reducing their profits pro tanto. An imputed interest receipt, equal to the imputed service charge, is entered in the appropriation account of enterprises, thus maintaining unchanged the saving of enterprises. The household share becomes an item of expenditure of households but it is balanced on the income side by an imputed interest item of the same amount. The general effect of this treatment is therefore to increase gross domestic product and other aggregates by the amount of the imputed service charge to households. The main problem in applying this rule is of a statistical character and arises from the fact that statistics on the distribution of bank deposits, which would be a convenient criterion for allocating the imputations, are only seldom available. Since, however, the total amount involved in most countries is small and the probable inaccuracies hardly any greater than those which follow from other estimating procedures, it will in most cases be satisfactory to use a more readily available criterion.

200. In the case of households, private non-profit institutions and general government, the contribution to gross domestic product is conventionally evaluated at factor cost and consists of compensation of employees (in cash and kind) plus rent and interest on buildings other than dwellings. The actual payments of interest on consumers' and public debt are thus neglected in this context and are treated as a transfer payment.

201. The industrial classification of the gross domestic product adopted in Table II corresponds in most respects to that shown in the International Standard Industrial Classification of All Economic Activities (ISIC); a detailed reconciliation of the two classifications is made in appendix 1. In one respect, however, it has been found desirable to deviate from the ISIC namely as regards the real estate industry as is explained below. The unit of classification in the ISIC is the establishment (cf. ISIC, pp. 2-4) and in conformity with this the estimates of the contributions of the different trades are to be drawn up on this basis. The adoption of the establishment as the unit of classification for this purpose will, however, give rise to some difficulties.

202. In the first place, it must be recognized that in many cases, depending to some extent on the basic statistical material, it may be difficult or even impossible to ascertain certain items, the most important of which are profits, on an establishment' basis. In such cases it may be found necessary instead to use the firm as the unit of classification, although the information clearly diminishes in value the more widely the unit of classification is defined.

203. A similar problem occurs in respect of income arising from the use of land and buildings. If the establishment is used as the unit of classification it would seem appropriate to include such income among the contributions of the trades actually using the land and buildings, irrespective of the ownership of these assets. This procedure, which has been adopted here,

requires, however, that a specific entry be made as regards the utilization of dwellings which is a category not explicitly shown in the ISIC. Accordingly, Table II contains, in addition to the groups from the ISIC, one item, 9, where the compensation of employees and the gross operating surplus originating from the use of dwellings are entered. The group "real estate" which is still found in Table II (item 8.c) is therefore only intended to comprise the activities of firms such as house and estate agents, rent collecting agents, etc.

204. The application of this procedure may involve serious statistical difficulties which may only be overcome by defining item 9 to include the contribution to gross domestic product originating from the use of dwellings owned by individual landlords (including rented as well as owner-occupied dwellings) and in corporate and non-corporate enterprises principally engaged in hiring out premises to other transactors, leaving all other income from the rent of land and buildings in the industry which receives it.

205. The third problem which is encountered in the use of the establishment basis relates to the treatment of general government activities, because item 10 in Table II in accordance with the ISIC only covers a rather narrowly-defined range of government operations while the rest is transferred to other groups. Thus, for example, traffic installations (lighthouses, pilot services, etc.) will be in item 6 while educational and health services will be in item 11.a and 11.b respectively.

206. The total contribution of general government agencies to the domestic product cannot, therefore, be derived from Table II but it is entered explicitly in Table III which also shows the contributions of private and public enterprises and of households and private non-profit institutions.

3. PROVISIONS FOR THE CONSUMPTION OF FIXED CAPITAL (flow 1.2 and item 1 of Table V)

207. These provisions are made for the purpose of ensuring that the value of fixed capital used up during the current period is charged as a cost against the operating revenue of that period. The provisions are designed to cover wear and tear and foreseen obsolescence of all fixed capital as well as accidental damage to it. Unforseen obsolescence should be treated as a capital loss at the time at which it actually occurs.

208. In principle, the scope of capital equipment for which these provisions should be made is given by the definition of gross capital formation (see section 1.c of this chapter). However, because of the practical difficulties, depreciation is not charged in respect of general government assets apart from buildings (see section 1.b above). No provisions are charged for the depletions of natural resources.

209. In general, enterprises base their methods of computing the annual provisions for depreciation and obsolescence on the concept of maintaining the money value of their capital intact by allocating the original cost of the asset over its expected lifetime. This procedure is open to objection since, as prices and techniques change, the cost of using fixed assets may be greater or less than that obtained by such a calculation. Accordingly, these provisions should take into account the cost of replacing the assets in the year for which the provision is being calculated in accordance with the rules set out in chapter II.

210. A calculation of this character is, however, very difficult to make since in most cases the only available data are the provisions actually made by enterprises. Information about the prices of comparable capital goods and, in particular, about changes in the productivity of the capital goods which is needed to convert the actual charges to a replacement cost basis is very inadequate.

211. In view of the considerable changes in the price level, it is nevertheless important that some adjusment of the provisions actually made should be undertaken even if all the factors mentioned above cannot be introduced into the calculation. In estimating this adjustment no attempt should be made to allow for arrears of depreciation arising from the fact that earlier provisions have been made at a lower price level since depreciation is treated as a current cost of production.

212. The adjustment made to actual charges may be considerable and subject to a large margin of error and so it is suggested that countries in a position to do so should indicate the size of the adjustment (as in the case of inventory valuation adjustments) the more so since the actual charges and the incomes calculated on the basis of these may be useful for several purposes.

213. The remaining component of this flow consists of provisions for the value of accidental damage to fixed capital the greater part of which will frequently be covered by way of insurance (premiums less administrative costs of insurance companies).

214. In Table V the provisions set aside by private enterprises, public corporations, government enterprises and general government respectively are shown separately.

4. NATIONAL INCOME (Account 2 and Tables III and IV)

215. As appears from Account 2, the national income may be derived from the net domestic product by adding in the net factor incomes received from the rest of the world.

(a) National Income by Type of Organization (Table III)

216. This table provides a classification of the national income principally by the type of organisation in which it originates. Of the six main entries the five show the contributions to net domestic product of private enterprises, public corporations, government enterprises, households and private non-profit institutions and general government. Since these contributions include remuneration to factors of production supplied both by normal residents and by foreigners, all factor income received by normal residents from abroad is added in order to convert the table to a national income basis. The gross flows of factor payments between normal residents and

foreigners are shown in Table XI, items 2 and 5. They are defined in detail in the Balance of Payments Manual of the International Monetary Fund. In principle, these transactions are valued gross of taxes and consumption expenditure incurred abroad, except for taxes assessed directly on the earnings of direct investment enterprises, which may better be regarded as a local cost. Earnings of direct investment enterprises should also be recorded net of provisions for fixed capital consumption and the depletion of natural resources and should be adjusted to exclude any windfall gains or losses.

217. The contributions to net domestic product of public and private enterprises have been subdivided so as to show the major distributive shares within each type of organization. Furthermore, since these shares may be considerably different in agriculture and in other industries, these two industrial groups have been separated out within the sector of private enterprises, agriculture being defined as in item 1.a of Table II.

218. Within the sectors for households and private non-profit institutions and for general government, no analysis of the distributive shares has been undertaken since the amount of non-labour income arising in these sectors (that is, net rent and interest on buildings occupied by private non-profit institutions and by general government) is so trifling that it may be neglected for this purpose.

219. The major classification of the distributive shares recognized in the table is that between compensation of employees (defined in the comments on Table IV) and other income. Since this is a classification of the contribution to domestic product, other income (here termed operating surplus) is equal to the sum of distributed and undistributed profits, rent and net interest (all measured before tax) originating in the sector. Within the two subdivisions of the private enterprise sector the operating surpluses of corporations and unincorporated enterprises are shown separately.

(b) National Income by Distributive Shares (Table IV)

220. In this table the analysis of the distribution of the national income given in Table III can be thought of as carried one step further so as to show the forms in which it accrues to what are for most practical purposes the final recipients of the income.

221. In the case of compensation of employees this step is very simple, since it only involves an adjustment of the labour-income originating in groups 1 through 5 in Table III in respect of the net compensation of employees received from abroad included in item 6 of that table.

222. As regards the distribution of the operating surpluses in items 1 through 5 of Table III and the net property income from abroad in item 6 of Table III it must be recognized that this part of the national income reaches the final recipients in a variety of forms depending on the structure of the economy and the institutional framework of society. For this reason the property income flows shown in Table IV do not reflect the remuneration of the various factors of production but simply record the forms in which the incomes are received.

223. In making this classification it is convenient to include, in addition to the operating surpluses, the payments of interest on the public debt and on consumers' loans because these interest payments largely enter into the funds which are available to enterprises for distribution and saving and thus form an indistinguishable part of other property incomes in the system. In order to make the sum of incomes received equal to the national income, this procedure necessitates an adjustment at the end of the table in respect of interest on the public debt and on consumers' loans.

224. Taken as a whole, the sum of items 2 through 8 in Table IV will thus be equal to the sum of the operating surpluses and the net property income from abroad in Table III.

225. The first three items (1, 2 and 3) of Table IV record the income accruing to households and private non-profit institutions in various forms, item 4 records the sums retained by private and public corporations and items 5 and 6 record the sums received by general government by way of taxes on corporations, property income and the surpluses in government enterprises.

226. The components of Table IV are then defined as follows:

(1) Compensation of employees (flow 2.1)

227. This flow includes all the wages, salaries and supplements, whether in cash or in kind, payable to normal residents employed by private and public enterprises, households and private non-profit institutions and the general government, as well as the labour income payable by the rest of the world to normal residents of the given country. The definitions of the three items into which this flow is divided in Table IV are as follows:

Wages and salaries (item 1.a)

228. This item represents all the wages and salaries of employees before deduction of their contributions to social security. It includes supplements such as commissions, bonuses and receipts from profit-sharing arrangements as well as tips to waiters, fees paid to directors and ministers of religion, etc. It also includes the premiums paid by employers in respect of private pension and similar schemes which are not included under social security. The value of income in kind such as food, lodging and clothing provided by employers should be included at cost to the employer in so far as it represents an additional benefit to the employees.

229. The following items are excluded from this flow:

(i) Travelling and other expenditure incurred for business purposes and refunded by the employer;

(ii) Expenditure by employees on working tools and equipment for use in their work;

(iii) Family allowances not financed directly by the employer.

Pay and allowances of members of the armed forces (item 1.b)

230. This item is the same as item A.1.b of Table X.

Employers' contributions to social security (item 1.c)

231. This item comprises payments by all employers to social security agencies on behalf of employees who are normal residents.

(2) Income from farms, professions and other unincorporated enterprises received by households (flow 2.2)

232. This flow records the income in money and kind accruing to individuals in their capacity as sole proprietors or partners of enterprises and as independent professional men. Accordingly it may be regarded as consisting of elements which are the remuneration of both the labour and capital provided by the entrepreneur. It includes all the sums retained and invested in the enterprise. Income from the ownership of land and buildings and the possession of financial assets is excluded.

233. The individual components of this flow shown in Table IV are defined as follows.

Farm income (item 2.a)

234. Consists of income in cash or in kind earned from farming activities as defined in item 1.a of Table II.

Income of professions (item 2.b)

235. Includes all income from independent professional practices such as those carried on by doctors, dentists, lawyers, engineers, architects, etc.

Income of other unincorporated enterprises (item 2.c)

236. Consists of the net income of sole proprietors and partners other than those engaged in farming and the professions.

(3) Income from property received by households and private non-profit institutions (flow 2.3)

237. This flow records all actual or imputed payments to individuals and non-profit institutions in their capacity as owners of financial assets, land and buildings.

238. The content of the items in Table IV composing this flow is as follows.

Rent (item 3.a)

239. Comprises all net income from the possession of land and buildings accruing to households and private non-profit institutions. It is net of costs of operation such as insurance, repairs, rates and taxes, water charges, depreciation and mortgage interest. Net rent includes actual rents paid as well as imputed rents on owner-occupied dwellings. Royalties received from patents, copyrights and rights to natural resources are also included in this flow.

Interest (item 3.b)

240. Comprises all actual interest payments receivable by households and private non-profit institutions including interest on government bonds and imputed interest receivable from life insurance, banks and similar financial intermediaries.

Dividends (item 3.c)

241. Comprises all dividends accruing to households and private non-profit institutions from corporations and co-operatives.

Corporate transfer payments to households and private non-profit institutions (item 3.d)

242. This item covers all current account grants made by corporations to households and private non-profit institutions serving households including allowances for bad debts but excluding grants and bonuses to employees. The operating surplus of corporations as shown in Table III is calculated before the deduction of these transfers.

(4) Saving of corporations (flow 2.4)

243. This flow is composed of the following two items shown in Table IV.

Saving of private corporations (item 4.a)

244. Comprises that part of the income earned by private corporations and co-operatives which remains after direct taxes are paid and dividends distributed.

Saving of public corporations (item 4.b)

245. Comprises that part of the income earned by public corporations as defined in section 5 (b) of chapter II which remains after direct taxes are paid and dividends distributed.

246. In some countries these institutions will include authorities set up to administer marketing and price stabilization schemes a part of the income of which is set aside for future distribution to the producers on whose behalf the schemes were set up. The undistributed profits of such authorities will appear in this item and, where important, they should be shown separately. It must be recognized, however, that schemes of this kind may be established under a different form of legal organization, for example, as government enterprises.

(5) Direct taxes on corporations (flow 2.5)

247. Direct taxes on corporations and co-operatives are those which are levied at regular intervals on the profits, capital or net worth of these enterprises. Corporate income and excess profits taxes, taxes on undistributed profits or on capital stock are included here. Capital levies and similar non-recurrent payments should be treated as capital transfers and not as charges against current profits.

(6) General government income from property and entrepreneurship (flow 2.6)

248. This flow records the sums receivable by the general government from government enterprises as well as the net rent, interest and dividends accruing to it from the ownership of buildings or financial assets.

249. The conditions under which certain government enterprises operate often make it difficult to decide whether the surpluses or deficits of these enterprises should be included in this flow or treated as indirect taxes or subsidies. The profits of state monopolies, such as those for tobacco and alcohol, are best treated

as indirect taxes since it is impossible to make an appropriate allocation. In the case of all other government enterprises there is a prima facie reason to record their surpluses or deficits in this flow, especially if these enterprises operate in competition with other domestic or foreign producers. While it is difficult to formulate rules of general applicability, some assistance may be gained by an analysis of the price policies pursued by these enterprises.

Profits of government enterprises (item 6.a)

250. These are defined in the same way as the profits of private enterprises.

Rent, interest and dividends (item 6.b)

251. Comprises all income accruing to the general government in its capacity as an owner of financial assets, land and buildings as well as imputed net rent on buildings owned and occupied by the government.

(7) Interest on the public debt (flow 2.7)

252. This flow consists of interest on all kinds of general government debt whether owed by central, state or local authorities.

(8) Interest on consumers' debt (flow 2.8)

253. This flow consists of interest on all debt owed by households and private non-profit institutions in their capacity as consumers.

5. CURRENT TRANSFERS BETWEEN GENERAL GOVERNMENT AND THE REST OF THE DOMESTIC ECONOMY

254. The definition of the various domestic current transfers is as follows:

(a) Indirect taxes (flow 5.8)

255. Taxes on goods and services that are chargeable to business expense and taxes on the possession or use of goods and services by households are treated as indirect taxes. The main categories are therefore import, export and excise duties, local rates, entertainment duties, betting taxes, sales taxes, business licences, stamp duties, motor vehicle duties, taxes on the operation of wireless and television sets, etc. The profits of state monopolies, such as tobacco and alcohol monopolies, should also be included.

256. Real estate and land taxes are treated as indirect taxes unless they are considered merely administrative devices for the collection of income taxes.

(b) Subsidies (flow 5.2)

257. Subsidies consist of the current grants made by public authorities to producers. They may take the form of direct payments to producers or of a differential between the buying and selling prices of government trading organizations. The value of coupons made available by government to specific groups of the population to enable them to obtain goods at prices lower than the current market prices are not included here but in government transfers to households (flow 5.3).

(c) Interest on the public debt (flow 5.7)

258. See section 4 (b), flow 2.7.

(d) Direct taxes on corporations (flow 5.9)

259. See section 4 (b), flow 2.5.

(e) Direct taxes on households and private non-profit institutions (flow 5.10)

260. This flow includes all taxes levied as a charge on the income of households and private non-profit institutions such as personal income taxes, surtaxes, etc. Since social security contributions of both employers and employees are considered to be part of the compensation of employees these contributions are included here.

(f) Current transfers from general government to households and private non-profit institutions (flow 5.3 and Table IX)

261. Current transfers from general government to households and private non-profit institutions comprise all those unilateral payments other than interest on the public debt made by general government which are considered to provide additions to the recipients' incomes.

262. The classification of this flow as set out in Table IX may be defined as follows.

Education and research (item 10.a)

263. These payments include scholarships and maintenance allowances for educational purposes, wages and allowances paid to industrial trainees and grants (other than for investment purposes) to private non-profit universities, technical institutes, schools and research centres and the arts.

Health (item 10.b)

264. These payments include sickness and maternity benefits, grants to private non-profit hospitals, sanatoria, etc. and payments from social security funds which are reimbursements for health expenditures included in private consumption.

Social security and assistance (item 10.c)

265. This item includes unemployment benefit and relief payments, old-age pensions, widows' and guardians' allowances, family allowances, accident and injury benefits and grants to private non-profit institutions which undertake social welfare work.

Other transfers (item 10.d)

266. This item comprises other current transfers such as war bonuses, pensions and service grants and grants to households and private non-profit institutions not included above.

(g) Other current transfers from households and private non-profit institutions to general government (flow 5.11)

267. Includes certain payments by households and private non-profit institutions that are not included in consumption expenditure, as, for instance, school fees, fees for passports, driving tests and identification papers and fines and other penalties paid to general government.

6. CURRENT TRANSFERS BETWEEN THE DOMESTIC ECONOMY AND THE REST OF THE WORLD

268. The definition of the various current transfers is as follows:

(a) Current Transfers between Households (including Private Non-Profit Institutions) and the Rest of the World (flows 4.5 and 4.11 and Table XI)

269. These two flows represent the value of all unilateral payments between households and private non-profit institutions and the rest of the world. They include personal and institutional remittances and migrants' transfers, whether in cash or in kind, and allowances for bad debts. Real and financial assets transferred abroad by migrants, and also legacies, are to be recorded as capital transfers, while ordinary migrants' remittances, such as remittances to dependent relatives, are recorded as current transfers. These flows correspond to items 3.a and 6.a of Table XI.

(b) Current Transfers between General Government and the Rest of the World (flows 5.4 and 5.12 and Table XI)

270. These flows represent all unilateral current payments, whether in cash or in kind, between general government and the rest of the world (including international organizations) apart from transfers of military equipment. They include all grants in cash and in kind used by the government for consumption purposes. These flows correspond to items 3.b and 6.b of Table XI.

7. SAVING, CAPITAL TRANSFERS AND LENDING

(a) Saving (Table V)

271. As set out in chapter II the balancing items on the current accounts of enterprises, households and private non-profit institutions and general government represent the saving of these sectors, that is, the surplus of current incomings over current outgoings. For the nation as a whole total saving will be equal to the sum of net domestic capital formation and the surplus of the nation on current account with the rest of the world.

272. These relationships are presented in Table V which is, in fact, a consolidation of account 3 and the capital reconciliation accounts in accounts 4, 5 and 6. Flow 5.5, saving of general government, is given for each type of authority. Since saving is always defined in terms of the other entries in the system no further comments on these flows are called for. It will be noticed that these entries may differ considerably from what is found as "saving", "current surplus", etc., in the accounts of businesses and government because of differences in the accounting principles adopted as regards, for example, inventory valuation, provisions for depreciation, capital gains, cash versus accrual basis of recording transactions and the definition of capital formation.

(b) Capital transfers (Table VII, IX and XI)

273. Apart from the effects of capital gains and losses which have not been recorded in this system, the saving of a sector would, in the absence of capital transfers, represent the net increase in the wealth of the sector and hence be equal to the sum of net capital formation and net lending recorded on its capital reconciliation account. Also on these assumptions the surplus of the nation on current account would naturally be equal to the net increase in the foreign assets of the nation. However, as already stressed in chapter II, it is useful to introduce a distinction between current and capital transfers, the first of these categories taking place between the current accounts of the sectors and the latter between the capital reconciliation accounts. The rationale of this distinction is that capital transfers as understood here are not, in general, considered by the recipient (or the payer) as adding to (or reducing) his current income and therefore influence the level of consumption only indirectly through the effects on the amount and composition of the assets of the recipient (or the payer). These payments are thus in their effects considered to be more akin to capital gains and losses and might therefore be entirely excluded from the accounting system. Since, however, these transactions in some cases have formed an important element in the economic policies of governments and since also the distinction between current and capital transfers frequently may be difficult to draw, it has been found appropriate to include them in the system where they are shown as taking place between the capital reconciliation accounts.

274. It will readily be seen that these transactions which are defined primarily in terms of the concept of private income will most clearly be recognized in the relationship between the public and the private sector (or within these sectors) while, as regards transfers between countries, the most important of which take place between governments, it is more difficult to make this distinction.

275. Before the capital transfers are dealt with in some detail it should be mentioned that the system of accounts presented in chapter III, in order to provide a comprehensive view of domestic capital formation, has included all private and public capital formation in one account while still preserving separate capital reconciliation accounts for households and general government. To obtain this result, notional financing flows have been introduced to represent the imputed transfer of funds from households and general government to the enterprises responsible for capital formation (cf. paras. 82 and 110).

276. The various flows of capital transfers appearing in the system are then defined as follows.

(1) Finance of gross capital formation in the non-corporate private sector (flow 3.7).

277. This notional flow covers the value of all capital formation (both in fixed assets and in stocks) in all unincorporated enterprises, private non-profit institutions and owner-occupied houses.

(2) Finance of gross capital formation in the non-corporate public sector (flow 3.8).

278. Included in this notional flow is the value of all capital formation (both in fixed assets and in stocks) in general government and government enterprises.

(3) Net capital transfers to households and private non-profit institutions from corporations (flow 4.15).

279. This flow comprises the net flow of capital grants between corporations and households and private non-profit institutions, such as grants from corporations to foundations.

(4) Net capital transfers to households and private non-profit institutions from general government (flow 4.16).

280. Details of this flow are recorded in items 15 and 17 of Table IX. Item 15 includes payments of death duties, gift taxes, capital levies, confiscations and similar payments to the government while item 17 will cover, for example, war-damage payments in respect of personal effects together with investment grants to unincorporated enterprises and private non-profit institutions.

(5) Net capital transfers to households and private non-profit institutions from the rest of the world (flow 4.17).

281. This flow records all unilateral payments between these two sectors involving items of a capital nature. In particular, real and financial assets transferred by migrants to their new country of residence and legacies are included. The gross flows are shown in items 8.a and 10.a of Table XI.

(6) Net capital transfers to corporations from general government (flow 5.14).

282. This flow consists of all net capital transfers from general government to corporations and co-operatives. It will include mainly such transactions as capital levies, confiscations, etc. as well as war-damage payments and investment grants made to corporations and co-operatives. Gross flows are given in items 16 and 18 of Table IX.

(7) Net capital transfers to general government from the rest of the world (flow 5.18).

283. This flow consists of all net capital transfers between the two sectors such as grants which have been made principally with a view to financing a deficit in foreign transactions (e.g. E.R.P. grants etc.), reparation payments, grants for investment purposes in overseas territories, etc. Gross flows are shown in items 8.b and 10.b of Table XI.

(8) Net capital transfers to corporations from the rest of the world (flow 6.8).

284. It is assumed that transfers between these two sectors are of a capital nature and hence this flow consists of all net transfers between corporations and the rest of the world. Gross flows are shown in items 9 and 11 of Table XI.

(c) Lending and borrowing

285. The balancing items on the capital reconciliation accounts after saving, capital formation and capital transfers have been taken into account are the net changes in the financial assets and liabilities of the sectors (apart from capital gains and losses). No further classification of these flows is undertaken in the system since, to produce meaningful results this would require a greater number of sectors including, in particular, a separate sector for banks and other financial intermediaries. These are now consolidated with other corporations in account 3 and the present flows of lending and borrowing have therefore a relatively limited analytical significance.

286. The following items of net borrowing are recognized in the system of accounts.

(1) Flow 3.6 comprises the net borrowing of public and private corporations and co-operatives.

(2) Flow 4.18 comprises the net borrowing of households and private non-profit institutions. Borrowing by unincorporated enterprises is included here.

(3) Flow 5.19 comprises the net borrowing of general government and government enterprises both at home and abroad.

(4) Flow 6.11 comprises the net increase or decrease in the foreign claims of the nation.

Appendix 1

INDUSTRIAL CLASSIFICATION OF DOMESTIC PRODUCT

The industrial classification of gross domestic product given in chapter IV, Table II follows very closely the one set out in the International Standard Industrial Classification of All Economic Activities (Statistical Office of the United Nations, Statistical Papers, Series M, No. 4, Rev. 1, New York, 1958). A reconciliation of the two classifications is presented below where Table II has been defined in terms of the ISIC.

The only difference between the two classifications concerns the treatment of dwellings and other real estate. This problem is discussed in detail in section 2 of chapter V.

RELATIONSHIP BETWEEN PROPOSED INDUSTRIAL CLASSIFICATION AND THE INTERNATIONAL STANDARD INDUSTRIAL CLASSIFICATION OF ALL ECONOMIC ACTIVITIES

	Division	Major group	Group
1. Agriculture, forestry, hunting and fishing	0		
a. Agriculture		01	
b. Forestry and logging		02	
c. Hunting, trapping and game propagation		03	
d. Fishing		04	
2. Mining and quarrying	1		
a. Coal mining		11	
b. Metal mining		12	
c. Crude petroleum and natural gas		13	
d. Stone quarrying, clay and sand pits		14	
e. Other non-metallic mining and quarrying		19	
3. Manufacturing	2-3		
a. Food		20	
b. Beverages		21	
c. Tobacco		22	
d. Textiles		23	
e. Footwear, other wearing apparel and made-up textile goods		24	
f. Wood and cork products, except furniture		25	
g. Furniture and fixtures		26	
h. Paper and paper products		27	
i. Printing, publishing and allied industries		28	
j. Leather and leather products except footwear		29	
k. Rubber products		30	
l. Chemicals and chemical products		31	
m. Products of petroleum and coal		32	
n. Non-metallic mineral products, except products of petroleum and coal		33	
o. Basic metal industries		34	
p. Metal products except machinery and transport equipment		35	
q. Machinery except electrical machinery		36	
r. Electrical machinery apparatus, appliances and supplies		37	
s. Transport equipment		38	
t. Miscellaneous manufacturing industries		39	
4. Construction	4		
5. Electricity, gas, water and sanitary services	5		
a. Electric light and power		51	511
b. Gas manufacture and distribution		51	512
c. Steam heat and power, water and sanitary services		51-52	513 521-522
6. Transport, storage and communication	7		
a. Water transport		71	715-716
b. Railroad transport		71	711
c. Other transport and storage		71-72	712-714, 717-720
d. Communication		73	730
7. Wholesale and retail trade	6		
a. Wholesale trade		61	611
b. Retail trade		61	612
8. Banking, insurance and real estate	6		
a. Banks and other financial institutions		62	620
b. Insurance		63	630
c. Real estate		64*	640*
9. Ownership of dwellings	—	—	—
10. Public administration and defence	8	81	810
11. Services	8		
a. Education		82	821
b. Medical and health		82	822
c. Recreation and entertainment		84	841-843
d. Domestic services		85	851
e. Hotels and restaurants		85	852-853
f. Laundries, barber shops and other personal services		85	854-856, 859
g. Religious organizations, welfare institutions, legal services, trade associations, etc.		82-83	823-827, 829, 831-833, 839

* Part

Appendix 2.

CLASSIFICATION OF PRIVATE CONSUMPTION EXPENDITURE

The classification of private consumption expenditure presented in Table VIII and chapter V is here described in detail. In view of the wide range of goods and services purchased by consumers, the list appearing in this appendix is by no means exhaustive and is intended only to cover the more important goods and services, giving at the same time an idea of the contents of the items of Table VIII.

In order to amplify this necessarily brief list and also to provide a guide to the use of trade and production statistics for estimates of consumption expenditure, it has been found useful to add to the description of each item a reference to the Standard International Trade Classification, Revised (Statistical Office of the United Nations, Statistical Papers, Series M, No. 34, New York, 1961) whenever tangible commodities are involved.

The classification in Table VIII cannot, however, be entirely reconciled with the SITC. The classification of consumption expenditure aims primarily at presenting a picture of the amounts spent by consumers for various purposes, while the SITC is a classification of commodities, irrespective of their use for production, consumption or capital formation. It is therefore in many cases difficult to decide whether certain groups of the SITC should be included and to allocate goods which appear together in the SITC to different groups of consumption expenditure. Finally the SITC does not include the services which enter into the various items of consumption expenditure.

In the following reconciliation of the two classifications no account has therefore been taken of the fact that the goods mentioned in the SITC may be used both for consumption and production. When an asterisk (*) is attached to a SITC group or subgroup it means that not all the items in the group or subgroup may be relevant to the consumption expenditure category referred to.

	Standard International Trade Classification, Revised		
	Division	Group	Subgroup
1. Food			
a. Bread and cereals Rice, flour and other cereals, cereal preparations, bread, biscuits, cake and other baking products, sago, tapioca and arrowroot	04	—	—
b. Meat Fresh, chilled and frozen meat, bacon and ham, poultry, game, sausages, offal, canned meat and meat preparations	01	—	—
c. Fish Fresh, frozen, canned and preserved fish and other sea food and fish preparations	03	—	—
d. Milk, cheese and eggs Fresh, evaporated, condensed and dried milk and cream, cheese and curd, eggs including treated eggs	02	022 024 025	— — —
e. Oils and fats Butter, margarine, lard and other edible fats and oils	02 09 42	023 091 —	— — —
f. Fruits and vegetables Potatoes and potato products, fresh, dried, frozen and preserved vegetables and fruit, nuts, fruit and vegetable juices	05	(excluding item 053.3)	—
g. Sugar, preserves and confectionery Sugar, syrup, jam, marmalade, honey, chocolate and sugar confectionery, table jellies and ice cream	05 06 07 09	053 — 073 099	053.3 — — 099.0*
h. Coffee, tea, cocoa, etc. Coffee, tea, cocoa, etc. and their substitutes	07 09	071 072 074 099	— — — 099.0*
i. Other food Salt, spices and food preparations n.e.s.	07 09 27	075 099 276	— 099.0* 276.3
2. Beverages			
a. Non-alcoholic Mineral waters and other soft drinks	11	111	—
b. Alcoholic Beer, wines, spirits and cider	11	112	—
3. Tobacco Cigars, cigarettes and other tobacco for personal consumption	12	122	—
4. Clothing and other personal effects			
a. Footwear All footwear including rubbers	85	—	—
b. Clothing other than footwear All made-up clothing and clothing materials including haberdashery, millinery and custom tailoring and dressmaking	65 84	651*-5* —	— —
c. Other personal effects Umbrellas, travel goods, handbags and similar articles, precious stones, jewellery and watches	66 83 86 89	667* — 864 897* 899	— — 864.1* — 899.4 899.9*

* Part

	Standard International Trade Classification, Revised		
	Division	Group	Subgroup
5. Rent, rates and water charges All gross rent (actual and imputed gross rents on owner-occupied houses as well as actual and imputed ground rents payable) including water charges and local rates. Rent will in general be space rent covering heating and plumbing facilities, lighting fixtures, fixed stoves, wash basins and other similar equipment which is customarily installed in the house before selling or letting. Payments by sub-tenants for use of furniture, etc., are accordingly excluded and such surcharges are to be found in item 8.b. Expenditures of tenants on indoor repair and upkeep (for example, indoor painting, wall paper, decorating, etc.) are included. Rooms in boarding houses are included here, while hotel rooms are in item 11.b.			
6. Fuel and light Coal, coke, briquettes, heating and lighting oils, firewood and charcoal, electricity, gas and purchased heat	24	241	—
	32	321	—
	33	332	332.2, .3, .4
	34	341	—
	35	351	—
7. Furniture, furnishings and household equipment			
a. Furniture and furnishings Furniture, fixtures, pianos, curtains, coverings, etc.	65	652*-4*	—
		655*	—
		656	656.6, .9
		657	—
	82	—	—
	89	891	891.4*
		896*	—
b. Household equipment Pottery, glassware, household utensils, cutlery and silverware, heating and cooking appliances, refrigerators, electrical appliances and fittings, sewing machines, wireless and television sets, gramophones and records, clocks and baby carriages	66	665	665.2
		666	—
	69	695	695.2
		696	—
		697	—
	71	717	717.3
		719	719.4
	72	724	724.1, .2, .9*
		725	725.0
		729	729.3
	81	812	812.4
	86	864	864.2
	89	891	891.1, .2
		893*	—
		894	894.1
		897	897.1*
		899	899.2*
8. Household operation			
a. Domestic services Remuneration in cash and in kind of domestic servants, cleaners, etc.			
b. Non-durable household goods Household goods of limited durability such as matches, household soap, scourers, polishes, cleaning materials, household paper products, candles and electric bulbs, repairs to all household durables (item 7).	55	554	—
	64	641	641.1, .5*
		642	642.1*, .9
	69	698	698.5*
	72	729	729.2
	89	899	899.3*
c. Household services Repairs to footwear, clothing and household textiles, cleaning, dyeing and laundering, hire of household durables, net premiums on fire and theft insurance of household property, moving and storage of household goods			
9. Personal care and health expenses			
a. Personal care Toilet articles and preparations including shaving equipment, services of barber and beauty shops, baths and massage parlours	55	553	—
		554*	—
	62	629	629.3, .9*
	72	725	725.0*
b. Health expenses Medicinal and pharmaceutical products and therapeutic equipment, services of physicians, nurses and related practitioners. Fees to private hospitals other than non-profit institutions. Expenditures of private non-profit hospitals. Net payments to private accident and health insurance companies and associations	54	—	—
	62	629	629.3*
	72	726	726.1
	86	861	861.2*
10. Transport and communication			
a. Personal transport equipment Cars, trailers, motorcycles and bicycles, including the mark-up on second-hand purchases	73	732	732.1, .9*
		733	733.1*, .3*, .4
b. Operation of personal transport equipment Parts and accessories, tires, tubes, gasoline, oils and greases, parking, garaging, repairs and net insurance payments, bridge, tunnel, ferry and road tolls, motor vehicle licences	33	332	332.1, .5*
	62	629	629.1
	73	732	732.8*, .9*
		733	733.1*, .3*
c. Purchased transport Fares on railways, trams, buses, cabs, ships and airlines, baggage transfers, storage and excess charges, tips to porters, etc.			
d. Communication Postal, telephone and telegraph services			
11. Recreation and entertainment			
a. Entertainment Expenditure on theatres, cinemas, sports and other places of public amusement			

* Part

* Part

	Standard International Trade Classification, Revised: Division	Group	Subgroup
b. Hotels, restaurants and cafés Expenditure in restaurants, etc., over and above the retail value of the food, drink and tobacco consumed, included in item 1–3. Tips are included.			
c. Books, newspapers and magazines Books, newspapers and other printed matter, stationery and writing materials	64	642	642.2, .3
	89	892	—
		895	895.2*
d. Other recreation Private flying and sailing including purchases of aeroplanes, yachts and boats, hunting, shooting and fishing, dog and gun licences, radio licences, musical instruments not included in item 7, photography and other expenditure connected with hobbies, services rendered by clubs, purchases of toys, flowers, pets, pipes and lighters	29	292	292.5, .6, .7
	57	571	571.4
	65	656	656.2
	73	734*	—
		735	735.3
	86	861	861.4, .5, .6
		862	—
	89	891	891.4*, .8*
		894	894.2, .3, .4
		896*	—
		899	899.3*

12. Miscellaneous services
   a. Financial services
      Operating expenses of life insurance companies, actual and imputed bank charges, brokerage charges and investment counselling, money order fees, and administrative charges of private pensions schemes, household finance companies and other financial institutions rendering services to households.
   b. Education and research
      Education and research (fees to private schools and universities other than private non-profit institutions, expenditures of private non-profit institutions and other educational expenditures).

* Part

	Standard International Trade Classification, Revised: Division	Group	Subgroup
c. Other services Legal services, employment agencies and trade unions, professional associations, religious and political activities, dealers' margins on purchases from pawnbrokers, undertaking and other funeral services			

13. Expenditure of residents abroad
    All consumption expenditure of residents abroad. This item corresponds to debit item 5 in Table A of the Balance of Payments Manual excluding expenditures incurred for business purposes plus personal transport expenditure and the consumption expenditures of seamen included in item 4 in Table A of the Balance of Payments Manual and the consumption expenditures of diplomats and members of the military forces stationed abroad included in item 7 in Table A of the Balance of Payments Manual

14. Less expenditure on non-residents in the country
    All expenditure for consumers' goods and services by non-residents within the country. This item corresponds to credit item 5 in Table A of the Balance of Payments Manual plus the expenditures of foreign seamen, diplomats and members of the military forces within the country included in items 4 and 7 in Table A of the Balance of Payments Manual

15. Less value of gifts (net) sent abroad
    Value of gifts in kind (net) sent abroad by households and private non-profit institutions. This item should cover both goods and services included in items 1-12 and gifts in form of goods bought in a previous year.

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