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THE MAJOR TRANSACTIONS OF THE PUBLIC SECTOR

by

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## THE MAJOR TRANSACTIONS OF THE PUBLIC SECTOR

## I. INTRODUCTION

1. The transactions of the public sector detailed in the standard accounts and tables of SNA are described in this chapter. In treating these flows it is convenient to deal separately with the transactions undertaken by (i) producers of government services, (ii) public industries, (iii) general government and (iv) corporate and quasi-corporate public enterprises. Accordingly transactions pertaining to the production, consumption expenditure and capital formation accounts are treated under (i) and (ii), while those relating to the income and outlay and capital finance accounts appear under (iii) and (iv).

## II. SOURCES OF DATA

2. At the federal level, the basic source materials for estimating and classifying the transaction flows of the producers of government services and general government are of course mainly the budgetary statistics compiled by the Finance Ministry or Treasury. The figures recorded in official budget documents and related analyses of fiscal records will almost invariably require revision and adjustment if they are to conform to the definitions, categories and classifications of SNA. Adjustment will also frequently need to be undertaken as a result of discrepancies in respect of the coverage of government bodies, timing (especially if the fiscal year differs from the calendar year), the degree of consolidation, etc.. Because of the time lag before firm figures become available, special quarterly, monthly or weekly reports covering important receipts and outlays usually serve as the basis for preparing preliminary estimates.

3. In countries where the number of state and local governments is large, information at this level is often obtained, at least in part, on a sample basis. Typically, data are collected from all states, provinces and similar major areas, but only on a sample basis for the lower levels of government. The reporting of receipts and expenditures to the central government may be required by law or may be done on a voluntary basis in response to enquiries by the Central Statistical Office, Finance Ministry or some other agency.

4. In the United States, for example, estimates of the transactions of the federal government are derived chiefly from the records of the central accounts of the Treasury as published in fiscal year and monthly statements, supplemented by special Internal Revenue Service tabulations dealing with income taxes and social security contributions. The figures

of fiscal years, which are the most detailed, are spread over four quarters (the fiscal year ends June 30) and converted to calendar years for national accounts purposes. Numerous other adjustments are also made to the Treasury and IRS data for coverage of government units and trust funds, intra-governmental transactions, timing (e.g. certain taxes are changed from a cash to an accrual basis), capital transactions, and so on.

5. As regards state and local governments, a complete census covering over 90,000 such units is generally conducted every five years. Data on expenditures are also collected annually by the Bureau of the Census from each state, and from local governments by means of a stratified sample of 10,000 units. Among the adjustments that have to be made to these returns are the conversion of the figures to a calendar year basis, the exclusion of land purchases and the shifting of construction outlays from a payments to put-in-place basis. The major source of receipts data is a quarterly revenue summary published by the Bureau of the Census and based mainly on mail sample surveys covering state-administered taxes and locally collected property and other taxes. Some of these data are adjusted to an accrual basis before they are used in the national accounts. In addition to the sources mentioned, use is also made of specialized reports issued by other federal agencies, in particular the Department of Labor and the Department of Health, Education and Welfare.

6. With the data available, the United States is unable to separate navy yards, arsenals and other ancillary units from the producers of government services, or to allocate government services by kind of activity. However, it is expected that the practice of combining the capital formation of government enterprises with the government's purchases of goods and services can be altered to separate out the capital expenditures of the enterprises; and that in future, government enterprises can be classified by kind of economic activity.

7. In the United Kingdom and a great many other countries the basic approach is very similar. Thus, in the United Kingdom the Exchequer accounts furnish the framework for central government transactions. The published statements, which are annual or weekly, cover all the cash flows through United Kingdom Government accounts with the Bank of England and the Bank of Ireland. This information is supplemented in drawing up the national accounts with data on revenues and expenditures appearing in numerous other sources, for example the reports of the inland revenue commissioners, the customs and excise commissioners, the "supply services" and other bodies and funds. Almost all the information is on a cash basis, with the annual reports showing figures for years ending March 31. For local authorities the main sources are the published statutory annual returns. Owing to the very broad classifications employed here, use is also made of the various special-purpose enquiries undertaken by ministries of the central government, including a quarterly sample survey of wages and salaries.

8. In contrast to this approach which depends on the meticulous analysis and reconciling of estimates appearing regularly in various official reports, in Norway the Ministry of Finance now supplies data for national accounts purposes on punch cards. Each card shows a flow category for an administrative sub-division linked to purpose but detailed enough to be fitted into an activity classification. The cards are then processed to obtain the required national accounts flows. The codes presently used are not in agreement with the new SNA, but the system is considered flexible enough to permit data to be compiled according to alternative definitions and classifications simply by changing the codes. The intention is to follow SNA recommendations in the future so that most of the data called for in the standard accounts and tables can be directly derived in this way. All the figures are on a cash basis in accordance with the record-keeping of the central government, but reported receipts of direct taxes are adjusted to a due-to-be-paid basis. For local government (municipalities), the required data are obtained by means of a questionnaire.

9. The approach in Sweden is somewhat the same. There the Government Accounts and Audit Office tabulates the data for the various departments, etc. of the central government according to type of transaction and also carries out a classification by purpose, in both instances following the requirements of the national accounts system. Approximately 1,000 budget items are distinguished in this work. Local government data are collected by the central Bureau of Statistics through a questionnaire which distinguishes some 30 transaction categories and 80 administrative divisions. Although the data requested generally conform to the accounting systems of local governments, an effort is made to obtain the breakdowns needed for the national accounts.

10. In most countries the principal source of data on public enterprises is the annual or quarterly statements issued by these bodies. Transactions with the central government, such as loans, subsidies and capital grants, may be obtained directly from the government accounts. In some countries, including Malaysia, the Netherlands, Norway and the United Kingdom, such enterprises are covered as well in the regular industrial census or survey programmes, thereby facilitating the tabulation of data relating to production, capital formation, etc. on an establishment basis. It is also not uncommon for such statistics to be collected by special questionnaire. This is done in Norway, for instance, where profit-and-loss and balance sheet information is obtained from the non-financial enterprises of the central government by questionnaire and questionnaire enquiries are also used to collect data from municipally-owned enterprises. This approach has the potential advantage of speeding up the collection process; in Ghana, where the accounts of the public non-financial enterprises generally become available with a time lag of over three years, information on gross output, intermediate consumption and value added is obtained from these enterprises directly.

11. Needless to say, the sharp distinctions drawn in the new SNA between industrial and institutional groupings of transactor units, kind of economic

activity and purpose, quasi-corporate and small unincorporated government enterprises, private and public non-profit institutions, current and capital transfers, etc. will in a great many instances not be reflected in existing sources of data on the operation of the public sector. For some time to come statistical authorities will need to co-operate with Treasury and other officials concerned with fiscal records in evolving a data framework suitable for the further elaboration of the national accounts along the lines of SNA as well as for sound budget administration. Since requests for tax and spending changes are now more than ever likely to be considered in the light of their effects on the entire economy, it is important that the transactions of the public sector be incorporated in the national accounts in a manner which enables the impact of budgetary decisions to be understood. To this extent the aims of both groups are the same.

12. In most cases mutual accommodation simply calls for finer detail: the transaction categories recognized in SNA need to be identified in the public accounts and the requisite data compiled for appropriate transaction units. For example, the classification of value added by kind of economic activity calls for data from reporting units which are reasonably homogeneous as regards the kind of activity undertaken. Where, say, wages paid by local governments are typically available only for each municipality or other governmental entity as a whole - rather than by departments, bureaux or other administrative divisions - the object of achieving an industrial classification will be frustrated. In practice the designation of appropriate reporting units will no doubt represent a compromise between the theoretical ideal and the readily attainable.

13. To some extent the information requirements of SNA exceed the scope of what can be provided by government accounting records. An outstanding example is the need for measures of capital consumption. Since the concept of depreciation is not normally recognized in government accounting outside the public enterprises, provisions for the consumption of fixed capital have, unfortunately, to be imputed with benefit of an official record. As contrasted with the former SNA, in the present system such provisions are not limited to government buildings but cover machinery and equipment of all kinds as well (though not roads, bridges and the like). This extension in coverage, desirable in principle, brings SNA recommendations in this area into line with present practices in several countries which make serious attempts to estimate the capital consumption in government, e.g. Malaysia, the Netherlands, Norway and the United Kingdom.

14. Imputed flows are, however, kept to a minimum in the public sector in the new system. Thus, the imputation of rent on government-occupied office buildings as called for in the old system is no longer required.

15. Given the differences between the new and old systems and the limited experience to date with the latter, it would be premature to attempt a

thorough-going review of the methods followed by individual countries in preparing estimates conforming to the latest recommendations. Nevertheless, in the description of the public sector flows which follows, attention is given to estimating problems, practices and anticipated difficulties where this appears useful and information is available. In this connection use has been made of the replies to a special Statistical Office questionnaire, as well as to published materials and seminar documentation.

### III. TRANSACTIONS OF THE PRODUCERS OF GOVERNMENT SERVICES

#### A. Value added, intermediate consumption and gross output

16. Standard Table 1 of SNA calls for the compilation of (i) value added according to cost composition, (ii) intermediate consumption and (iii) gross output, all classified by kind of economic activity. The flows involved and their inter-relationships can be set out as follows:

1. Compensation of employees
2. Consumption of fixed capital
3. Indirect taxes
Value added
4. Intermediate consumption
Gross input (equals gross output)

since the gross output of government services is with only minor exceptions not for sale, the value of such production must be determined from the cost side, i.e. from expenditures on the components of value added and intermediate consumption.

17. In measuring the flows involved, the definition of producers of government services has to be kept in mind. Not only are public enterprises excluded, but ancillary undertakings mainly supplying government itself and the own-account construction activity of government departments are to be classed among industries whenever delineation of a separate establishment is feasible. The extent to which these exclusions can be realized in practice will naturally depend on the information available. Probably the most important departure can be expected to be found in the treatment of printing plants, workshops and other ancillary bodies.



18. As regards the classification of transactions according to kind of economic activity, the range over which government services will be distributed is narrower than the full standard classification scheme. These services will not generally fall in such divisions of the classification as manufacturing, mining, construction, and wholesale and retail trade; provision is made elsewhere in the scheme for recording the promotion and regulation of these activities (under major group 913, General administration, economic policies and services).

1. Compensation of employees

19. Employee compensation is to be classified into the following elements in line with the requirements of Table 18 (concerned with the distribution of national income):

---

Civilian labor force

1. Wages and salaries
2. Government contributions to social security schemes on behalf of government employees
3. Government contributions to insurance and pension schemes and the like established especially for government employees

Members of armed forces

1. Wages and salaries
  2. Government contributions to social security, insurance, pension and similar schemes, including family allowance
- 

20. Wages and salaries covers payments for work both in cash and kind, gross of social security contributions and the like withheld, but exclusive of reimbursement for travel and other expenses incurred on official business. Wages and salaries paid to civilian employees and military personnel stationed overseas are included (the overseas embassies, military establishments, etc. of a given country are regarded as extra-territorial by the country in which they are located); payments to the locally recruited staff employed in these establishments are of course part of the given country's domestic product but not its national income.

21. Income in kind such as food and lodging representing an additional benefit to employees should be included in wages and salaries at an amount equal to the cost to the government of providing the goods and services. Where the goods and services are not provided primarily for the benefit of government workers, as would be the case with medical examinations or police uniforms, they should not be counted, however. In the case of the armed forces, uniforms are considered part of wages and salaries because military clothing, unlike the uniforms of the police, lift operators, etc., are customarily worn off duty. On the other hand, the rental value of military barracks should not be included.

22. Government contributions to social security schemes and to related plans providing pensions, unemployment benefits, insurance and the like are covered in the other elements of compensation. Where governments make direct payments of certain benefits in the absence of special schemes or reserves, it is preferable to include in compensation, imputed contributions to the unfunded schemes in respect of these obligations (determined on some reasonable basis, e.g. payments during recent periods, or the experience of similar funded schemes) in place of actual payments. The implications of this treatment are considered below in connection with the income and outlay transactions of general government.

23. Estimates of employee compensation distributed according to kind of economic activity will usually be readily deducible from budgetary statistics. Employment data are more likely to be available for transactor units suitable for classification by kind of activity than any other, although in all likelihood adjustments for coverage and conceptual discrepancies will be required. Thus, the record for local government bodies coming within the definition of producers of government services may be incomplete, or the returns may include units more properly regarded as coming under public industries. Conceptual adjustments will mainly take the form of additions to cover income in kind; the amounts involved will for the most part have been recorded in budgetary sources as non-wage outlays and may or may not be sufficiently clearly identified to permit easy reallocation.

## 2. Consumption of fixed capital

24. In the case of producers of government services, the scope of capital consumption is restricted to particular fixed assets: (i) machinery and equipment and (ii) buildings. Capital consumption allowances in respect of roads, bridges, harbours and similar works are omitted both for practical reasons and because it is not unreasonable to assume that such assets can be maintained in their original state for extremely long periods by periodic upkeep.

25. Since outlays on construction and equipment mainly intended for

military use are not included in capital expenditures, capital consumption of such goods is excluded. This rule applies equally to military schools, hospitals, airfields, and so on which can later be put to civilian use. When such facilities are in fact transferred they become an addition to the capital stock (offset by a reduction in the intermediate consumption of the seller) and subject to capital consumption charges. An exception is made only for outlays on the construction of family dwellings for military personnel, such buildings being included in capital formation on the grounds that they serve the same purpose as civilian housing. It should be noted, however, that the provision of housing is to be treated as an activity of industry rather than of the producers of government services. Civil defence outlays are treated on a par with civil, not military, outlays.

26. Capital consumption reflects the gradual loss in value of fixed capital as a result of normal wear and tear, foreseen obsolescence and accidental damage. Where capital consumption is based on the original cost of assets with a view to keeping the money value of capital intact, an adjustment should be made to shift the estimate to a replacement cost basis by allowing for the price change of comparable capital goods. For national accounts purposes, what is needed are measures of capital consumption in current prices, or at replacement cost, because all other transactions are valued on this basis. Of course technological progress will lead to the replacement of certain capital assets by different rather than identical assets, so that the concept of replacement cost - in the sense of keeping the real value of capital intact - is only approximated by allowing simply for the change in prices or costs.

27. The estimation of capital consumption is undoubtedly more difficult for assets used to produce government services than assets put to commercial use. As regards the latter, at least original-cost estimates for accounting and tax purposes will normally be available, and these need only be adjusted for coverage and valuation. Producers of government services, by contrast, are not income earning bodies and without the same incentive to provide such figures. Nevertheless, government accounting offices do sometimes maintain records of their assets which can serve as a starting point. Such records are most likely to refer to federal property still in use valued at full undepreciated original cost.

28. A better approach is possible where historical series of annual capital expenditures in constant prices broken down by asset class are available or can be constructed. The undepreciated value of the stock of assets of a given class as of a particular time can be evaluated by cumulating the outlays on these assets over a period of years corresponding to the average life for the class. The gross capital stock at base-year prices can then be corrected to a current-price basis and capital consumption estimated through use of the average life. In this way, estimates of capital consumption on the required current-price basis can

be obtained in conjunction with estimates of the capital stock.

29. This method has recently been adopted in Malaysia to replace older estimates of government depreciation that were considered unsatisfactory. The Malaysian estimates of capital stock and depreciation cover not only equipment and buildings, but also other structures such as roads. The average lives of buildings, equipment and all other structures are assumed to be 40, 10 and 65 years, respectively. Since expenditure series extending back far enough to permit the stock of buildings and of other structures to be derived were not available, early capital outlays were especially estimated for this purpose by (i) assuming constant relationships between such expenditures and the gross domestic product and (ii) assuming average but different growth rates of real gross domestic product for the prewar years, the war years and the early postwar period. Experimentation with alternative growth rates indicated that the capital stock estimates for construction as a whole were not very sensitive to the rates selected owing to the much lower levels of capital accumulation prevailing before 1955 (actual expenditures were available starting with that date).

30. The estimates of capital consumption in Norway and the United Kingdom are also based on evaluations of the capital stock. In the United Kingdom buildings are depreciated over 80 years and equipment over periods varying in length from 16 to 50 years, depending on the class. No depreciation is estimated for roads and similar public structures.

31. Since standard table 1 requires capital consumption to be shown for each kind of economic activity, the capital expenditure series used in arriving at estimates of the capital stock by the method described (often denoted the perpetual inventory method) will need to be available by kind of economic activity so that the stock can be built up on this basis. Outlays on fixed assets by kind of economic activity are in fact called for by standard table 7 (concerned with the composition of gross capital formation).

### 3. Indirect taxes

32. Value added in standard table 1 is to be measured inclusive of any indirect taxes paid directly by the government. In most countries the value of such taxes will be negligible. It should be noted that taxes on intermediate inputs are excluded from this item and covered in intermediate consumption.

### 4. Intermediate consumption

33. This item consists of purchases of goods and services on current

account (virtually all of which will be "commodities"), reduced by sales of second-hand goods. Included in purchases are all durable goods intended for military use with the exception of family dwellings; when transfers of such durable goods to civilian use take place, they are deducted from intermediate consumption and become part of the stock of fixed capital. Goods purchased for addition to stocks considered to be of special importance to the nation, e.g. strategic materials, are not included in current-account purchases but are treated as stock accumulation. Similarly, withdrawals from such stocks, as well as sales of large lots of surplus goods originally charged to intermediate consumption, are treated as depletion of stocks.

34. Food, etc. purchased from industries by the producers of government services and supplied to employees free or at reduced prices should be included in wages and salaries at an amount equal to the cost to the government of providing this income in kind; hence, the cost of such outlays is excluded from intermediate consumption and becomes part of the final consumption of households. The treatment of government produced services which are included in the income in kind of government employees, for instance free hospital care, is similar in that a part of the gross output of government services is viewed as disposed of to households.

35. The question sometimes arises as to how to treat goods or services supplied to individuals directly by industries or non-profit bodies when the cost is borne by the government, i.e. whether to regard the purchases as made being made by government or households. The answer rests on such considerations as the degree of control exercised by the government over the provision of these services and the degree of choice reserved to individuals. In the case of a national health service which defrays almost all the expenses of medical care and under which persons are registered with particular practitioners whose standards and terms are regulated by contract, it would be reasonable to regard the national health service as the purchaser of health care. Any nominal payments made by individuals, as for dental care or spectacle frames, would then be treated as a purchase from the government service.

36. On the other hand, if the government simply sets the maximum payments it will make for authorized forms of treatment and individuals are free to choose their practitioners, arrange terms and so on, then individuals should be considered to be the purchasers of the services (financed by an unrequited current transfer from the government) on the grounds that it is they who make the essential decisions and arrangements. Whether the government pays the practitioners directly or reimburses individuals for out-of-pocket payments is immaterial. Probably all government medical insurance plans conform to this description.

37. Grants of relief food, military equipment and the like from one government to another, e.g. from central to local government or between governments of different countries, are recorded in the intermediate

consumption of the recipient government financed by a current transfer on the income and outlay account from the donor to the recipient. Where the governments are those of different countries, the goods transferred will also be recorded in the commodity exports of the donor country and the commodity imports of the recipient.

38. The compilation of estimates of intermediate consumption classified by kind of activity of the producer depends of course on the pertinent data being available for individual departments, bureaux or other suitable transactor units. Considerable processing of the information will be entailed where current- and capital-accounts purchases are not clearly distinguished in basic budgetary sources, or where the separation is made on some basis unacceptable for national accounts purposes (for instance, where military construction and hardware are classified as capital goods). Such departments as public works which produce commodities - own-account construction - should be excluded from the units for which intermediate consumption (as well as value added) is to be estimated and classified with industrial establishments.

39. In order for adjustments to be made so that intermediate consumption conforms to the definitions of SNA, supplementary information will sometimes be needed regarding the practices of particular departments, for instance, in connection with their payments in kind, transfers and stockpiling. In general, intermediate consumption should be recorded at the time purchases are made rather than upon delivery of the goods.

40. In compiling the figures, goods should be distinguished from services as required by standard table 4 (on the composition of government final consumption expenditure). The goods in question will comprise non-durable commodities and those durables acquired for defence. Further separation of all military goods from other goods would also be useful, as would be the division of expenditures on military durables into outlays for construction and for other items.

#### B. Final consumption expenditure

41. Final consumption expenditure cross-classified by cost-composition and purpose is to be shown in standard table 4. The relation of final consumption to the concept of gross output, discussed above, is as follows:

---

1. Services produced for own use (equals final consumption expenditure)
2. Non-commodity sales
3. Commodities produced

---

| Gross output |

---

As indicated, the value of the gross output of government services is derived from the expenditures on inputs into the producing units. While the major part of gross output consists of services produced for the government's own use (final consumption), some part is sold or consists of own-account construction, etc.. Final consumption expenditure can therefore be obtained by deducting these latter items from total gross output.

42. The purpose classification which is applied to final consumption expenditure is described in another paper. In order to distribute final consumption and its cost elements according to purpose, the expenditure components of gross output as well as non-commodity sales and commodities produced need to be classified in the same manner. If the components of gross output broken down by detailed activities are available, they can readily be reassembled to fit the broad purpose classification.

43. The cost-components of final consumption expenditure to be shown in standard table 4 are:

- 
1. Compensation of employees
  2. Consumption of fixed capital
  3. Intermediate consumption
    - (a) Goods
    - (b) Services
  4. Indirect taxes less non-commodity sales and commodities produced
- 

Final consumption expenditure

---

Inasmuch as items 1 through 3 and indirect taxes (which together equal gross output) have been discussed, it remains only to deal with non-commodity sales and commodities produced.

1. Non-commodity sales

44. Excluded from final consumption expenditure are receipts from the sale of goods and services for which the charge is substantially below the full cost. Examples of such sales would be admission charges to public museums and parks and the extra charges to patients for special treatment in hospitals where the basic care is free or provided at token cost. These charges are household purchases from government forming part of household final consumption expenditure.

2. Commodities produced

45. Although own-account construction is in principle an activity of industries, it is often impractical to separate out the cost elements of such construction when performed on a small scale by certain departments and to treat the activity as belonging to a distinct establishment. In order to avoid including such capital formation in public consumption, it is subtracted from gross output in arriving at final consumption. If the explicit costs of such construction cannot be ascertained, valuation will to some extent be arbitrary and involve imputations, as for own-account labour employed.

46. In addition, certain sales to industries and households are made at a price approximating the full cost of production. Although by definition these transactions involve commodities and should be separated from other transactions, this may not always be feasible (or worthwhile). Examples would be the sale of government publications, seed sold to farmers by agricultural experiment stations, sales of textbooks to public school students and of art reproductions to museum visitors. The goods and services concerned are part of the final consumption of households or the intermediate consumption of industries.

47. Government receipts from passports, driving tests, airport fees, court fines and the like are to be distinguished from commodity and non-commodity sales since the charges are not for goods and services purchased voluntarily but rather instruments of government policy or regulation. Such compulsory payments are a form of transfer similar to taxes. Whether licences paid by individuals for operating radio and television sets are purchases or compulsory fees depends on whether the government is actually involved in broadcasting in a significant way. If it is, broadcasting should be treated as a public industry and excluded from the gross output of government services.

3. Gross capital formation

48. Gross capital formation split into gross fixed capital formation and the increase in stocks is to be shown in standard table 7 distributed according to the kind of economic activity of the owner.

1. Gross fixed capital formation

49. The gross fixed capital formation of the producers of government services consists of their purchases of durable goods having a useful life of at least one year and their own-account construction, reduced by sales of



similar used assets. As explained above, durable goods which are to be used mainly for military purposes are included in intermediate consumption rather than capital formation (except for family dwellings). (A few countries, for example Sweden, follow a variant of this rule by including in capital formation military construction that can be put to civilian use, such as schools, hospitals, roads and airfields.)

50. Also excluded from capital formation are such outlays as those on research and development which do not lead to the creation of tangible assets, and on non-reproducible tangible assets such as land and mineral deposits. Purchases of land and sub-soil deposits enter only into the capital finance accounts and balance sheets of the system; such assets are distinctive in that they do not result from current production, imports or prior capital formation and are not subject to depreciation. However, outlays on improving land, as by land reclamation and clearance, and the costs of transferring land are included in gross fixed capital formation. Transactions involving existing structures situated on land the value of which cannot be separately ascertained may have to be treated in their entirety as sales and purchases of used fixed assets.

51. Purchases of fixed assets are included in capital formation at purchasers' values, i.e. at the full cost to the government of the assets delivered and installed, including the cost of site clearance, architects' and legal fees, and similar direct costs. Own-account construction will usually have to be valued at explicit cost, including, where necessary, the imputed value of the labour involved.

52. Significant alterations and additions to fixed assets and major replacements of parts are also part of gross fixed capital formation. Unlike current repairs and maintenance which simply maintain assets in working condition, these outlays raise the expected normal lifetime or productivity of capital goods. Accordingly, the replacement of tires on government vehicles, the repainting of public buildings, the repairing of roads and the like should be treated as intermediate consumption, while the installation of new engines in cars and trucks, the enlargement, renovation or modernization of buildings, the widening of roads and so on are capital expenditures.

53. Included in a given government's gross fixed capital formation (and imports) are the fixed capital outlays of its embassies and other extra-territorial establishments located abroad, less their receipts from sales of used assets. Similarly, the net capital outlays of foreign embassies, etc. situated in the country are recorded in the country's exports and not in its gross fixed capital formation. The outlays on fixed capital of international organizations in the country are handled in the same way.

54. In addition to a breakdown of gross fixed capital formation according to kind of economic activity, standard table 7 calls for a

classification of total fixed capital formation by type of capital good. Although a cross-classification by activity and type of capital good is not called for, it will be useful to build up the estimates of fixed capital formation of the various branches of producers of government services keeping the different asset types distinct. This would have two advantages. In the first place, it would facilitate preparing a breakdown of the nation's total fixed capital formation according to type of capital good. In addition, information on the types of fixed capital acquired by the various producers of government services is needed for estimating capital consumption by kind of activity.

55. The types of capital goods distinguished in standard table 7 are as follows:

- 
1. Residential building
  2. Non-residential building
  3. Other construction except land improvement
  4. Land improvement and plantation and orchard development
    - (a) Land improvement
    - (b) Plantation, orchard and vineyard development
  5. Transport equipment
  6. Machinery and equipment
    - (a) Agricultural machinery and equipment
    - (b) Other
  7. Breeding stock, draught animals, dairy cattle and the like
- 

Gross fixed capital formation

---

56. The bulk of the gross fixed capital formation of producers of government services will ordinarily consist of goods belonging in 2, 3, 4(a), 5 and 6(b) above. Residential building (1) will be undertaken by government bodies classed with industries. Under 6(b) will be recorded mainly office machinery and equipment, furniture and the like. If the government operates agricultural experiment stations of any size, there will of course be entries under 6(a) and 7.

57. This classification of capital goods, although much more detailed than what is recommended in A Manual for Economic and Functional Classification of Government Transactions, is virtually the same as the one

used in the former SNA to which a great many countries have been able to conform. Provided that data on capital outlays of departments or other suitable administrative units identify the types of goods acquired, allocation of purchases and own-account capital formation within the above scheme should not prove difficult. Where durable items of small value such as desk equipment and office furnishings are treated in budgetary sources as current-account purchases, their reclassification may not be worthwhile. Other adjustments may, however, have to be made to reported data for more important departures from SNA, for instance, for the treatment of land purchases, military outlays, repairs and parts, and sales of used assets.

## 2. Changes in stocks

58. The stocks of producers of government services are limited to those goods which are regarded as being of special importance to the nation, e.g. strategic materials; all other purchases of non-durable goods are included in their intermediate consumption. However, large sales of surplus goods are to be treated as depletion of stocks even if when originally purchased the goods were charged to intermediate consumption. This procedure is recommended because charging the sales to intermediate consumption leads to a drop in intermediate and final consumption in the period of disposal which it would be better to avoid. To remove the distortion in earlier periods, it may be desirable to adjust the data on stocks and intermediate consumption retroactively by removing purchases of the goods in question from intermediate consumption to the stock accounts in the periods when the goods were acquired.

59. The value of the change in stocks is the physical change valued in terms by average prices ruling during the period. Since any goods sold from stock by producers of government services will not have been processed internally, the use of current purchasers' prices should be a feasible and appropriate basis for evaluating the change in stocks. The measurement of stock changes on the required basis will ordinarily be more straightforward for the transactors in question than for industrial establishments whose accounting practices leads to measures of stock changes that are unsuitable for national accounts purposes without complex adjustment. Provided that a limited range of strategic commodities is stockpiled by the government (almost always the central government) and inventory records are available in physical units, changes in stock levels by commodity are easily determined and evaluated. Agricultural commodities are likely to be of negligible importance in most countries in the present context since government agencies concerned with agricultural price-support programmes or marketing arrangements to stabilize the incomes of producers of primary commodities will usually be classed with government industries.

60. Stock changes in standard table 7 are to be attributed solely to

public administration and defence (division 91). The national accounts returns based on the old SNA suggest that the practice of stockpiling critical materials is not widespread among governments or else usually of insufficient importance for the figures to be shown separately.

#### IV. TRANSACTIONS OF PUBLIC INDUSTRIES

##### A. Value added, intermediate consumption and gross output

61. Standard table 1 calls for industry data on (i) value added according to cost composition, (ii) intermediate consumption and (iii) gross output. The data, classified by kind of economic activity, cover both public and private industries without distinction. Thus, information under these headings comparable to the data compiled for the producers of government services is required for public industries.

62. The detailed flows concerned are the following:

1. Compensation of employees
2. Operating surplus
3. Consumption of fixed capital
4. Indirect taxes less subsidies

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Value added

5. Intermediate consumption

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Gross output (producers' values)

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Except for the inclusion of an operating surplus and the netting out of subsidies received, the flows correspond to those described in respect of government services above. Accordingly, apart from dealing with the new items, the discussion below can be directed mainly to any differences in these flows insofar as they enter into the production accounts of public industries as opposed to the accounts of producers of government services.

63. Since the data to be classified by kind of activity are those pertaining to individual establishments, determination of the operating surplus is dependent on being able to establish all the inputs into production, including the overhead costs shared with other establishments of the same enterprise - for instance, those connected with central administration, warehousing, advertising and sales. The problem of overhead

costs is not serious in the case of public enterprises which consist of similar establishments operating in different locations but with centralized overhead activities, since the entire enterprise can be accepted as an establishment-type unit for present purposes. Fortunately, many public industries fit this description. Moreover, government industries are mainly in such areas as distribution, public utilities, finance and transport and communication, in which the problems of delineating establishments are less formidable than in manufacturing, to which a much finer classification is applied.

#### 1. Compensation of employees

64. In addition to pertinent points covered in respect of producers of government services above, it should be noted that compensation here may include certain payments not normally available to government employees, for instance commissions, tips, bonuses and directors' fees. The treatment of unfunded employee welfare benefits described in the case of government services - the substitution in compensation of imputed contributions to unfunded schemes in place of direct benefit payments - is of course equally applicable to public industries.

#### 2. Operating surplus

65. Unlike the producers of government services, industries earn an operating surplus. For any given industry, with the exceptions noted below, this surplus is a residual equal to the excess of its gross output at producers' values over the sum of (i) intermediate consumption at purchasers' values, (ii) compensation paid to employees, (iii) consumption of fixed capital and (iv) payments of indirect taxes reduced by any subsidies received. Failure to allow for the costs of overhead services in measuring the inputs into production will of course lead to overstatement of the surplus.

66. The exceptions are public industries in a monopolistic position. In these instances it is appropriate to regard as indirect taxes a part of what would otherwise be the operating surplus. It is fairly common, for example, for the production or distribution of such items as tobacco, matches or alcohol to be in the hands of government monopolies established for the express purpose of raising revenue. At least a part of the surplus of such fiscal monopolies amounts for all practical purposes to a tax on the products controlled and should, accordingly, be classified as such. At the same time, where it is feasible to estimate what a normal return would be on the capital invested, this amount could be recorded as (pure) operating surplus.

67. The same treatment should be accorded state enterprises that are not fiscal monopolies but whose prices are fixed to ensure a permanent surplus exceeding a normal return, since in this case, too, the enterprises serve the purpose of raising general revenue. By the same token, where government enterprises experience losses regularly as a result of a deliberate policy of keeping prices too low to cover production costs, the operating losses should be treated as subsidies. The operating losses of public corporations compensated by grants from the government are likewise to be treated as subsidies.

68. Most countries depart from the treatment outlined above in various respects. Thus, in the United States all deficits -- offset by any surpluses -- are regarded as subsidies (moreover, depreciation is disregarded in measuring the surplus or deficit). In certain other countries, for example Norway, virtually no surpluses/deficits (or profits/losses) are treated as indirect taxes or subsidies. The notion of a normal return as a base from which to measure the monopoly element to be taken as the tax does not appear to occur in practice. Nevertheless, in a good number of cases the SNA treatment is, by and large, followed.

69. Determination of the operating surplus of public, as well as private, financial institutions may give rise to special problems. Thus, the operating surplus of banks and similar financial intermediaries whose charges are small by comparison with their operating expenses will turn out to be negative if the transactions of these institutions are handled in the ordinary way. (Their major source of income is not from service charges, but consists of the excess of earnings on loans and investments over deposit interest paid.) To avoid the anomaly of a negative surplus, or even value added, it is recommended that an additional service charge be imputed equal to the difference between the property income earned and property income paid, thereby raising the receipts of banks, etc.. The imputed charge is also treated as an element of the intermediate consumption of a nominal industry, which as a result has a corresponding negative surplus and value added. In this way, total gross domestic product is unaffected by the imputed transaction. This treatment differs from the one formerly recommended principally in that (i) no part of the imputed service charge is included in final consumption as opposed to intermediate consumption, and (ii) no attempt is made to allocate the charge among the various industries.

70. As regards government insurance companies, the gross output used for establishing the operating surplus should consist only of the charge for the service of insuring. Since the premiums paid by policy holders insured against accident, fire and other casualties include a payment for risk as well as a payment for service, these two elements need to be distinguished. If the payment for risk is measured by claims paid in the same period, the service charge is equivalent to the excess of premiums received over claims paid. In the case of life insurance, premiums include in addition an element of saving. The service charge may therefore be regarded as the

excess of premiums received over both claims paid and net additions to actuarial reserves (excluding interest on these reserves which accrues to policy holders). The actuarial reserves in question should cover the equity of policy holders in the reserves of the companies, i.e. pre-paid insurance and other forms of saving with life insurance companies.

### 3. Consumption of fixed capital

71. The scope of capital consumption in public industries differs from that of producers of government services chiefly in that it is applied to all fixed assets covered by the definition of fixed capital formation without exception.

72. The method of estimating capital consumption is also likely to differ in that the starting point will ordinarily be the charges recorded in the periodic statements issued by public enterprises. Inasmuch as these provisions for capital consumption are based on the original rather than the replacement cost of assets, the figures need to be adjusted at least for the changing cost of comparable capital goods if they are to be used for national accounts purposes. In practice such an adjustment can only be made roughly since information on the composition by type of capital good and the age distribution of the stock of assets being written off will rarely be available. Considering the margin of error thus inherent in the adjustment and also the usefulness of knowing the actual provisions made by the enterprises, it is suggested that the amount of the adjustment that is made in each case be shown separately.

73. Since charges for the depletion of natural resources are excluded from capital consumption, any figures for capital consumption reported by extractive industries which include such allowances will require correction in this respect.

### 4. Indirect taxes less subsidies

74. Indirect taxes are the levies assessed on producers in respect of the production, sale, purchase or use of goods and services and charged to current expense. Common examples include import and export duties; excise, entertainment, sales and turnover taxes; real estate and land taxes, unless these are merely administrative devices for collecting income taxes; business licences; value added and employment taxes; and motor vehicle licences. In addition, part of the operating surpluses of public industries in a monopolistic position are treated as an indirect tax, as explained above.

75. Subsidies received by public industries comprise (i) all grants on

current account made by the government to public corporations, for example, to cover operating losses and (ii) grants to government enterprises in compensation for regularly incurred losses which are clearly attributable to public policy (see paragraph 67 above).

#### 5. Intermediate consumption

76. The intermediate consumption of public industries consists of the non-durable goods and services used up in production, valued at purchasers' values, i.e. at the full market cost to the point of delivery to the consuming establishment. As explained in paragraph 34 above, the value of goods and services acquired for the express benefit of employees forms part of compensation (payment in kind) and not of intermediate consumption. Intermediate consumption also excludes the cost of major replacement parts and significant alterations to fixed assets (see paragraph 52 above).

77. If public industries lease equipment or pay rent on their structures, the rent paid is included in their intermediate consumption. (This treatment of rent as a payment for a commodity-type service is a departure from the former SNA, where the rent paid is counted as part of the value added of the users.) Rent of land is treated differently, however, the net rent involved being handled as a property income payment. In arriving at the net rent, the maintenance costs, taxes and similar outlays incurred by an owner should be treated as production costs of the renter to the extent possible. In the case of rented land, therefore, the net rent will be reflected in the operating surplus of the user of the land, not the owner.

#### 6. Gross output

78. Unlike the gross output of the producers of government services, the gross output of public industries has of course a value independent of the directly measurable inputs (the operating surplus is a residual). It consists of the goods and services produced within the period and sold, added to the stocks of the producers or to their fixed capital formation. In standard table 1, gross output is to be shown at producers' values, that is, expressed in the prices received at producers' establishments; if establishments are defined to include delivery or other services which they themselves provide, e.g. installation of equipment, the charges involved are included. In the case of establishments or industries engaged in distribution, however, gross output is the value of the gross margin realized on the sale of the goods purchased and distributed by them, i.e. the market value received from their sales less the delivered cost of the goods to them.



79. Although own-account fixed capital formation should in principle be included in gross output valued according to the prices charged for comparable assets marketed by producers, the only feasible procedure will often be to value the new structures, major alterations, etc. at the explicit costs incurred in their production. These same observations apply to internally processed commodities that are added to stocks.

80. Ascertainment of the gross output of certain financial institutions gives rise to problems in that a suitable measure of their service charges, which is their gross output, has to be determined. In this connection reference should be made to the discussion of banking and insurance in paragraph 69 above.

#### B. Gross capital formation

81. With the differences noted below, the observations made in section III C above are applicable also to the gross fixed capital formation and the increase in stocks of public industries.

##### 1. Gross fixed capital formation

82. The scope, valuation and classification of the gross fixed capital formation of establishments forming public industries are the same as for the producers of government services. The special treatment accorded durable military goods is of course inapplicable here. Even though public industries may capitalize their outlays on research, development and exploration in their accounts, such outlays are to be excluded from capital formation unless they actually result in the acquisition, improvement or enlargement of tangible assets. As indicated earlier, outlays for land clearance, reclamation and the like are included; the same holds true of the costs of developing, improving or enlarging plantations, timber tracts, mines, etc..

##### 2. Changes in stocks

83. The main difference here as compared with the stockbuilding of producers of government services is that the stocks of public industries consist of all the supplies, work-in-progress and finished commodities in their possession. Unfinished construction put in place is not included in stocks but in the gross fixed capital formation of the establishment for which the work is being done. Standing timber and crops, as opposed to logs and harvested crops, are excluded from the concept of stocks. Draught animals, breeding stocks, dairy cattle and animals raised for

wool clips should, unlike other livestock, be counted in fixed capital formation rather than in stocks.

84. The standard classification scheme applied to stocks (and used in standard table 7) is shown below:

- 
1. Goods producing industries  
Agriculture, forestry and logging, and fishing;  
mining, manufacturing and electricity, gas and  
water supply; and construction
    - (a) Materials and supplies
    - (b) Work-in-progress
    - (c) Livestock except breeding stock, dairy cattle  
and the like
    - (d) Finished goods
  2. Wholesale and retail trade
  3. Other industries
  4. Stocks of government services
- 

The stock changes of public industries will of course be classified among the first three categories only.

85. In valuing stocks, goods purchased and added to stocks before being processed internally should be included at current purchasers' values; when withdrawn from stocks they should also be valued on this basis, which will be their replacement cost at the time in question. Goods that have been processed internally should be valued at current producers' values when added to or withdrawn from stocks. In this way, gross additions to and withdrawals from stocks will be consistent with the principles of valuing gross output and intermediate consumption.

86. While in the case of the producers of government services, actual changes over the period in the quantities of individual (strategic) commodities held are likely to be known, so that the value of the changes can be obtained directly as the product of the physical changes in stocks and appropriate (average) prices, similar data are unlikely to be available for public enterprises. It will therefore be necessary to adjust their accounting figures on the value of inventories to approximate the value of the physical change expressed in appropriate current prices, the measure required for present purposes. Adjustment will be required mainly because in business accounting withdrawals from stocks will not be based on prevailing prices but will be valued according to the particular method of

inventory accounting adopted, e.g. first-in, first-out or last-in, first-out. (Moreover, additions and withdrawals may not be valued at purchasers' or producers' levels, as appropriate, especially insofar as internally processed goods are concerned.) Thus, changes in the book value of stocks will reflect not only changes in quantity but also changes in unit prices.

87. Adjusting changes in the book value of stocks (and operating surplus) to eliminate the capital gain element is complicated because business inventory accounting practices vary, the price movements are not uniform for all commodities, and physical stocks of certain commodities may be rising while the stocks of others may be falling. At best the corrected measure will approximate physical changes evaluated at average prices obtaining during the period. In determining average prices it may be feasible to use purchasers' values for commodities that have not been processed internally, but for those goods that have been processed it may be necessary to employ explicit costs in place of the desired producers' values.

88. As in the case of capital consumption allowances, it is suggested that the adjusted figures be shown separately from the figures based on book values. Where recent price fluctuations have only been moderate, even rough adjustments should suffice to eliminate the capital gain element from stock changes derived from reported book values.

#### V. TRANSACTIONS OF GENERAL GOVERNMENT

##### A. Domestic factor incomes originating

89. The compensation paid to employees by general government and the general government's operating surplus, which together account for the domestic factor income originating in this sector, are to be shown in Part b of standard table 17. Operating surplus is a component since general government is defined to include certain government enterprises, such as ancillary enterprises and small undertakings which are highly integrated with public authorities.

##### 1. Compensation of employees

90. Employee compensation here is the same as for the producers of government services, except for differences in the coverage of the transactor units concerned.

## 2. Operating surplus

91. The operating surpluses in question, which may be positive or negative, are those of the enterprises included in the general government sector. These enterprises are treated as belonging to public industries in standard table 1.

### B. Income and outlay transactions

92. These transactions are the current receipts and disbursements recorded in the income and outlay accounts. In standard table 21 they are to be shown on a consolidated basis for each of the three sub-sectors of general government - central government, state and local government, and social security funds.

93. Not all the transactions described here are relevant for all the sub-sectors. Thus, social security contributions received and benefits paid are exclusively transactions of the social security funds sub-sector (unless social security arrangements are not organized and accounted for separately), while such items as operating surpluses, withdrawals from entrepreneurial income of quasi-corporate government enterprises, taxes, subsidies and certain other transfers enter only into the accounts of central and state and local governments.

#### 1. Current receipts

94. Current receipts comprise the following items:

- 
1. Operating surplus
  2. Withdrawals from entrepreneurial income of quasi-corporate government enterprises
  3. Property income
  4. Casualty insurance claims
  5. Indirect taxes
  6. Direct taxes
  7. Compulsory fees, fines and penalties
  8. Social security contributions
  9. Unfunded employee welfare contributions imputed
  10. Current transfers from other sub-sectors of general government
  11. Current transfers n.e.c. from the rest of the world
-

a. Withdrawals from entrepreneurial income of quasi-corporate government enterprises

95. These withdrawals are the receipts of net income from government enterprises (except for those included in the general government sector). The withdrawals from enterprises experiencing losses will of course be negative entries. Where the losses are regarded as compensated by subsidies, the withdrawals are shown as nil and the compensatory transfers as subsidy payments. Similarly, in certain cases the profits of government enterprises may be recorded as indirect taxes rather than positive withdrawals. Dividends received from public corporations are to be shown under property income.

b. Property income

96. The property income receipts of general government consist of interest, dividends, rent and royalties. Rent here refers only to the net income from land leased to other economic agents when the activity is not treated as that of a government enterprise. (Income from the letting of government buildings should be included in the surplus of government enterprises). Receipts of property income are to be recorded when payment is due rather than as of the time the income is earned.

c. Casualty insurance claims

97. These are claims arising from insurance against fire, floods and the like. The claims are to be recorded when due to be paid, i.e. upon adjudication.

d. Indirect taxes

98. In addition to the scope of indirect taxes as indicated in paragraph 74 above, certain other minor taxes are included under this heading when paid by producers, e.g. airport taxes, charges for passports and court fees (when paid by households they are classified as compulsory fees, fines and penalties). Indirect taxes are recorded when due to be paid.

99. In view of the importance of indirect taxation in the total receipts of most governments, a classification of such taxes would be useful for various purposes, such as comparing yields and projecting revenues. Neither SNA nor the manual on government transactions provides such a scheme. The following classification, which is adapted from An Economic Data Reporting System for the Agency for International Development<sup>1/</sup> may be of interest.

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1/ Economic Growth Centre, Yale University, New Haven, 1965. The study was prepared by William Abraham and Nancy D. and Richard Ruggles. The original classification has been changed mainly in order to distinguish taxes on land from other property taxes in line with the treatment of rent in SNA.

1. **Property taxes**

- a. **Rural**
  - (i) **Land**
  - (ii) **Structures and other property**
- b. **Urban**
  - (i) **Land**
  - (ii) **Structures and other property**

2. **Transactions taxes**

- a. **Excise (including the profits of state monopolies)**
- b. **General sales**
- c. **Turnover**
- d. **Value added**
- e. **Stamp and other**

3. **External trade taxes**

- a. **Imports**
- b. **Exports**
- c. **Foreign exchange and other**

4. **Other business taxes, licences and fees**

- a. **Payroll**
- b. **Licences**
- c. **Other**

#### e. Direct taxes

100. Direct taxes cover the taxation of income from employment, property, entrepreneurship, capital gains, pensions and other sources. Also included are the recurrent levies on the financial assets or net worth of enterprises, private non-profit institutions and households; and taxes paid by households on the possession or use of goods, e.g. motor vehicle licence fees. Where the taxation of real estate and land merely serves as an administrative device for assessing and collecting income taxes, the taxes should also be included here rather than in indirect taxes. Social security contributions are excluded.

101. As in the case of indirect taxes, income taxes should be recorded as of the date they are due. However, because of the sizeable time lapse in

many countries between the earning of income and the due date of payment of taxes, it would be useful in this instance to show, in addition, the taxes incurred on the earnings of a given period (that is, to show taxes on an accrual basis).

f. Compulsory fees, fines and penalties

102. This item consists of compulsory fees paid by households to public authorities for services which can be regarded as an instrument of government policy, e.g. fees for dog and driving licences, passports and court services (similar payments made by producers are treated as indirect taxes), and fines and penalties imposed on any transactor unit.

g. Social security contributions

103. These are the payments made by employees and their employers to social security schemes.

h. Unfunded employee welfare contributions imputed

104. Where general government pays welfare benefits to its employees directly in the absence of a special scheme or fund, contributions should be imputed in respect of these obligations (see paragraph 22 above). The benefits in question include pensions, maternity leave, family allowances, severance pay and the like.

105. The (imputed) unfunded contributions are included in the compensation of government employees, and thus in the final consumption expenditure of government, while the actual benefits paid are included in the current disbursements of government. Thus, neither government nor household saving is affected by the imputations.

i. Current transfers from other sub-sectors of general government

106. Because standard table 21 calls for the transactions of each sub-sector to be recorded separately, the unrequited current transfers received by one sub-sector from the others, such as grants-in-aid to finance current accounts outlays or deficits and transfers of food have to be shown. Gross receipts of this nature for the three sub-sectors taken together will of course equal total gross transfers disbursed. Transfers given or utilized to finance investment or which occur at very irregular intervals are excluded from the category of current transfers. Moreover, to be classified as a current transfer, a transfer should be regarded as current both by the recipient and the donor.

j. Current transfers n.e.c. from the rest of the world

107. This item consists of current-account transfers in cash and kind received chiefly from foreign governments, such as gifts of food and

military equipment and cash grants to finance current-account outlays. Transfers in kind received by a government are also included in its intermediate, and therefore final, consumption expenditure. The distinctions between current and capital transfers mentioned immediately above apply also the foreign transfers.

## 2. Current disbursements

108. The transaction categories shown as disbursements in standard table 21 are as follows:

- 
1. Final consumption expenditure
  2. Property income
  3. Net casualty insurance premiums
  4. Subsidies
  5. Social insurance benefits
  6. Social assistance grants
  7. Current transfers to private non-profit institutions
  8. Unfunded employee welfare benefits
  9. Current transfers to other sub-sectors of general government
  10. Current transfers n.e.c. to the rest of the world
- 

The excess of current receipts over current disbursements for any sub-sector is by definition the sub-sector's saving.

### a. Final consumption expenditure

109. Notwithstanding the distinction between general government and the producers of government services, government final consumption expenditure is the same in both instances. The inclusion in the general government sector of certain small enterprises, for example, does not affect the sector's final consumption expenditure since the commodities produced by these enterprises are sold and their production costs are reflected in other final expenditures. Similarly, the inclusion in general government of ancillary agencies which supply goods or services to government itself does not lead to a difference in the measure of final consumption since the imputed purchases are included in the intermediate, and thus final, consumption of the producers of government services.



110. In standard table 21 final consumption expenditure is to be shown by sub-sector. Since, however, final expenditure will in any case be built from data for individual departments or other administrative units, totals for the different levels of government can easily be established. The only complication likely to arise in this connection involves transfers in kind between the central government and state and local governments. The conventions applicable in this case have already been described, i.e. inclusion of the value of the goods in the intermediate, and therefore final, consumption of the recipient organ (financed by a grant from the donor).

b. Property income

111. Payments of property income refers to the same category of transactions described in paragraph 96 above. Interest earned on employees' equity in pension funds covering government workers only should be recorded here as an imputed payment if the reserves are invested in government securities.

c. Net casualty insurance premiums

112. Net premiums cover only the cost of the risk element in casualty insurance, i.e. they exclude the service charge. For a given type of casualty insurance, fire, accident, etc., net premiums are equated to the claims due in the period considered from the standpoint of the underwriters, not the insured. The (imputed) service element of the premiums paid by government is included in the government's final consumption expenditure.

d. Subsidies

113. Subsidies include all grants paid by general government to private enterprises which represent additions to their income from current production. Transfers to finance capital formation are classed as capital transfers rather than subsidies. In addition, all grants on current account made to public corporations as well as those given to government enterprises to cover operating losses incurred as a result of the government's policy are included in subsidies. Grants to households and private non-profit institutions serving households are excluded and classed among other transfers.

e. Social security benefits

114. These are benefits paid under social security arrangements, for example, pensions, unemployment insurance, accident benefits and reimbursement for medical expenses.

f. Social assistance grants

115. Included here are such cash grants as relief payments, family allowances, war bonuses and pensions, and scholarship aid. Social security and unfunded employee welfare benefits are excluded from this category.

116. While the beneficiaries of the grants are in all cases individuals, the grants may be paid directly to enterprises; in such cases they are in payment for goods or services which individuals, rather than the public authorities, are considered to have purchased.

g. Current transfers to private non-profit institutions serving households

117. These transfers consist of grants in cash and kind given to such institutions to help them defray the cost of providing services.

h. Unfunded employee welfare benefits

118. These are welfare benefits financed, in the absence of a special fund, by the imputed contributions described in paragraphs 104 and 105 above.

i. Current transfers to other sub-sectors of general government

119. See paragraph 106 above.

j. Current transfers n.e.c. to the rest of the world

120. See paragraph 107 above. Periodic contributions to the budgets of international organizations are also included here.

C. Gross accumulation and its finance

121. The flows comprising the gross accumulation of general government and those which finance this accumulation are to be shown in standard table 21 according to sub-sector. These transaction categories, along with the financial transactions discussed below, make up each sub-sector's capital-finance accounts.

1. The finance of gross accumulation

122. The financing flows consist of the following items:

- 
1. Saving
  2. Consumption of fixed capital
  3. Capital transfers received from other sectors, net
  4. Capital transfers received from other sub-sectors of general government, net
  5. Capital transfers received from the rest of the world, net
- 

a. Saving

123. For any sub-sector of general government, saving is the excess of its current receipts over its current disbursements.

b. Consumption of fixed capital

124. The allowances for capital consumption to be made here differ from those applicable to the producers of government services only because of differences in the scope of the transactors covered. (See section III A 2 above.) Since the allowances are to be shown in standard table 21 by sub-sector, the capital stock of each sub-sector on which capital consumption is charged will need to be determined. In applying the perpetual inventory method described earlier, therefore, the outlays on fixed investment by the central government need to be kept distinct from those by state and local governments.

c. Capital transfers received from other sectors, net

125. Capital transfers are unrequited transfers in cash or in kind that affect capital formation or wealth directly, or take place at very infrequent intervals from the standpoint of either the payer or the recipient. Net capital transfers received by government from other sectors is the difference (plus or minus) between such receipts as non-recurrent capital levies, confiscations, death duties and taxes on legacies and such payments as investment grants and indemnities for property damage caused by war or floods. A number of countries, including France, Japan, Norway and the United States, do not presently distinguish between current and capital transfers of whatever type.

d. Capital transfers received from other sub-sectors of general government, net

126. Covered here are grants between sub-sectors made for the purpose of financing capital formation and gifts of capital goods.

e. Capital transfers received from the rest of the world, net

127. Such transfers include grants for investment purposes, gifts of capital goods (excluding military items), grants to finance external deficits, and reparations.

2. Gross accumulation

128. The items composing gross accumulation are the following:

- 
1. Gross capital formation
  2. Purchases of land, net
  3. Purchases of intangible assets n.e.c., net
- 

For each sub-sector the excess of the financing flows listed in paragraph 115 over items 1 through 3 above is the sub-sector's net lending. The changes in financial assets and liabilities which make up the net lending are dealt with below.

a. Gross capital formation

129. Gross capital formation as recorded here will differ from that of the producers of government services insofar as there are differences in the scope of the transactor units covered. (See section III C above for gross capital formation of producers of government services.) Thus, the own-account capital formation of governmental units which are excluded from the fixed capital formation of producers of government services (and included with that of public industries) will be covered here, as will the capital formation of small government enterprises, etc. which are included in the general government sector but excluded from the producers of government services.

130. Changes in stocks of the producers of government services will be included in the capital formation of the central government along with the stockbuilding of the enterprises covered by the definition of the sub-sector. In the case of state and local governments, capital formation is the sum of fixed capital formation and the change in stocks of state and local enterprises included in the sub-sector. The sub-sector for social security funds does not deal in stocks.

131. As regards the gross capital formation of those government enterprises included in the sub-sectors for central government and state and local governments, the remarks in paragraph 82 are applicable here.

b. Purchases of land, net

132. This item consists of purchases of land, defined to include sub-soil deposits, forests and inland waters, less similar sales, all recorded at the time that legal title passes. Where the value of buildings bought or sold cannot be decomposed into the separate sales values of structures and land, it may be necessary to treat the total value as part of gross fixed capital formation.

133. The transfer costs associated with transactions in land, such as brokerage and legal fees, are treated as part of the fixed capital formation of the party bearing the costs. The sales value of land excludes such charges and is thus the same for buyer and seller. Outlays for improving land are treated as fixed capital formation. Such improvements will of course be reflected in the sales value of land when it later changes hands.

c. Purchases of intangible assets n.e.c., net

134. The intangible assets in question here are exclusive rights or commissions to exploit natural resources; dealings in financial assets, or claims on second parties, are excluded from this category. The purchases and sales are once-for-all transfers of legal rights and should be distinguished from the issue of patents, copyrights, etc. for which periodic payments classed as royalties are made. Transfer costs are treated in the manner described in paragraph 125 above. Transactions involving intangible assets will not be recorded for the social security funds sub-sector.

D. Transactions in financial claims

135. The financial transactions, the acquisition of financial assets and the incurrence of liabilities, of each sub-sector of general government are to be shown in standard table 21 to complete the record of capital transactions. The excess of financial assets acquired by a given sub-sector over its incurrence of liabilities is its net lending to all other sectors or sub-sectors. It is suggested that the data for each sub-sector be shown net in the sense that for each kind of financial asset distinguished acquisitions be netted against dispositions and that for each kind of liability incurrences be netted against redemptions. Transactions should be valued exclusive of commissions and similar charges.

136. The estimates at the federal level will ordinarily be based on Treasury or Finance Ministry statements adjusted for cover age to agree with the definition of general government. For the lower levels of government, periodic censuses or surveys or statutory reports will serve as the main source. The annual reports issued by social security funds

should provide the required information for that sub-sector, although supplementary detail may have to be collected by questionnaire. Where published statements are used, the figures for financial flows will be derived as a rule by taking the difference between balance sheet values of outstanding assets and liabilities as of the opening and close of each period.

1. Net acquisitions of financial assets

137. The types of assets which may be acquired by one or more sub-sectors of general government are shown below:

- 
1. Gold
  2. Currency and transferable deposits
  3. Other deposits
  4. Bills and bonds, short-term
  5. Bonds, long-term
  6. Corporate equity securities, including capital participation
  7. Short-term loans n.e.c.
  8. Long-term loans n.e.c.
  9. Proprietors' net addition to the accumulation of quasi-corporate government enterprises
  10. Other financial assets
- 

138. Not all of these assets will of course be acquired by every sub-sector. Thus, dealings in gold are as a rule confined to the central government of a country, while entries for proprietors' net additions to the accumulation of quasi-corporate enterprises will appear only in the accounts of central and state and local governments. Definitions of the financial claims which appear as assets or liabilities of general government will be found in table 7.2 of SNA. The table provides for a somewhat more detailed classification of claims than the one employed in standard table 21 in order to assist in the compilation of the detailed data on financial claims of standard tables 24 (dealing with the financial transactions of all sub-sectors of the economy) and 25 (showing the financial transactions of the monetary system, i.e. the central bank, other monetary institutions and the monetary functions of the Treasury).

2. Net incurrence of liabilities

139. The types of liabilities incurred by the sub-sectors of general government are as follows:

- 
1. Currency issued by the Treasury and transferable deposits
  2. Other deposits
  3. Bills and bonds, short-term
  4. Bonds, long-term
  5. Short-term loans n.e.c.
  6. Long-term loans n.e.c.
  7. Other liabilities
- 

140. Currency (including coins) issued by the Treasury will appear as a liability of the central government. Other issues of currency are not covered in standard table 21 since the central bank is included in the sector for financial institutions. Transferable and other deposits include the deposit liabilities of the Treasury and other bodies within the general government sector (central or state and local governments) which perform limited financial functions. Bills, bonds and loans are liabilities of the issuing or borrowing sub-sector; the amounts recorded should relate to funds raised by these means during the period of account reduced by redemptions or repayments in the same period.

E. Selected outlays by purpose

141. In standard table 22 various categories of government outlays are to be shown according to the summary headings of the purpose classification. The outlays in question are the following:

- 
1. Final consumption expenditure
  2. Subsidies
  3. Social security benefits, social assistance grants and other unfunded employee welfare benefits
  4. Other current unrequited transfers
  5. Gross capital formation

6. Capital transfers
7. Net loans made and bills, bonds and corporate equity securities acquired and net additions to the accumulation of quasi-corporate government enterprises

142. The final consumption of government broken down according to purpose also appears in standard table 4 and has already been discussed earlier. Showing gross capital formation of general government according to purpose presents some difficulties inasmuch as the transactor units of general government are entire organs of government (the central government and individual state and local governments). Nevertheless, for the joint analysis of government expenditures the scope of capital formation should be the same as in the capital finance account of the sector for general government. From a practical point of view it will probably be necessary to base the purpose classification of capital formation on data for the administrative transactor units of the producers of government services (these being chosen with a view to homogeneity of purpose as well as kind of economic activity) and to adjust the figures to correspond to the capital formation of general government by adding the gross capital formation classified by purpose, of small government enterprises and ancillary units which have been included in general government.

143. Subsidies, transfers, loans etc. are outlays of the organs of general government and will have to be classified individually according to the purpose served by each; the separate transactions of this sort will in effect be the units of observation and classification. These flows have already been described above.

#### .VI. TRANSACTIONS OF CORPORATE AND QUASI-CORPORATE PUBLIC ENTERPRISES

##### A. Domestic factor incomes originating

144. Part a of standard table 17 calls for figures on the domestic factor incomes originating in corporate and quasi-corporate public enterprises, i.e. compensation of employees and operating surplus, classified according to kind of economic activity. The remarks made in connection with the employee compensation and operating surplus of public industries in sections IV A 1 and 2 above apply here as well. In addition to the difference in coverage between public industries and the public enterprises in question here, it should be noted that standard table 17 calls for the industrial classification of data from enterprises, not establishments (as in the case of standard table 1). Hence the problem of apportioning the cost of overhead services does not arise. The required data can be based directly on the reports of public enterprises.



**B. Income and outlay and capital finance: non financial enterprises only**

145. The income and outlay and capital finance transactions of all non-financial corporate and quasi-corporate enterprises, public and private without distinction, are to be shown in standard table 20, classified according to kind of economic activity. The nature of these flows in respect of the public enterprises concerned should be clear from the discussion above.

**C. Transactions in financial claims**

146. In standard table 24 the financial transactions of public enterprises are to be shown classified by institutional sub-sectors, as follows:

- 
1. Non-financial corporate and quasi-corporate enterprises
  2. Financial institutions
    - (a) Central bank
    - (b) Other monetary institutions
    - (c) Insurance companies and pension funds
    - (d) Other financial institutions
- 

147. The financial data called for will of course be obtained from the reports of the institutions and by special enquiries. In a few countries, however, it may not be feasible to separate the financial transactions of government enterprises from those of general government. This is the situation in the United States.