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LESSONS FROM THE UK ATKINSON REVIEW

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The OECD has invited Tony Atkinson to present to the OECD Working Party on National Accounts the report of the panel that he has chaired regarding the measurement of the output of the non-market sector in the UK.

There are four reasons for this invitation:

- (1) the United Kingdom's national accounts have been clearly leading other countries in implementing "output based" measures of the output of the non market sector, and their experience, whatever difficult, is extremely interesting to other countries which are placed in exactly the same situation as our UK colleagues in this extremely ambitious task of measuring the output of the non market sector;
- (2) the quality of the report (still interim) which covers with great clarity all the aspects of this very difficult issue, including the discussion of international guidelines;
- (3) the implications of this debate regarding the international comparability of the data, which is obviously of major concern to OECD-STD, whose business is to make sure that GDP and productivity growth between countries is comparable;
- (4) the opportunity opened by the review of the SNA to use the findings and proposals of this report to improve the SNA, or its implementation guide, regarding the measurement of the output of the non market sector.

The present paper proposes a set of recommendations that can be extrapolated to other countries, based on the lessons of the UK experience.

They are submitted to the delegates of the WPNA for decision.

1. The objective should remain "output based" indicators

1. The UK has been one of the countries which have implemented the most the preference for "output based" indicators that is recommended by international guidelines (SNA and Eurostat's Handbook on price and volume measurement). Two-third of the value added of the government sector is compiled by the UK ONS using "output based" indicators. This is significantly more than any other OECD country. Contrary to expectations, rather than raising the measure of productivity of the government sector, this new measure has contributed to a decrease of measured productivity, raising questions about the reliability of the output and input measures.

2. Given general interest in public service output and productivity figures, the UK National Statistician set up an independent review to advise him on output measurement for the National Accounts. After re-examining the fundamental issues and the purpose of the National Accounts, the Atkinson Review has confirmed the desirability of the "output" approach. Its Interim Report proposes conditions to ensure that measures used in the National Accounts do indeed measure "output". It proposes a set of principles to

this end. One of these is confirmation of the SNA doctrine that quality change has to be taken into account.

Recommendation 1: *the objectives of national accounts should remain the construction of good “output based” indicators for the measurement of the volume of general government output. However, output based indicators are not, per se, superior to input based indicators. One essential condition is that the “output based” indicator is sufficiently quality adjusted.*

2. Cooperation with relevant ministerial departments

3. The UK experience has shown that the quality of the output based indicators depends heavily on the cooperation with appropriate government departments, which should be aware of the use of their data in the calculation of GDP and, ideally, accept ownership of these numbers. Education is a good example – though not the only one – where defining output is not straightforward, and where engagement with practitioners is important.

Recommendation 2: *National accountants should publicize openly the methods used to compile their non market output and discuss them specifically with the ministerial departments in charge of the corresponding non market services. The objective is that the ministerial departments participate in this compilation and are able to understand and corroborate the results, particularly as regards achieving complete coverage of government outputs and inputs and corroboration of the resulting productivity movements.*

Recommendation 3: *Education represents a very large part of the non market sector and, at the same time, is one of the more difficult areas because of the difficulty to quantify all the dimensions of the quality of the output. The OECD should organize an international conference on the aggregate measurement of education output, bringing together national accountants and experts on education.*

3. International comparability of growth and productivity is at stake

4. The UK data shows that, if an input based method had been continued past 1998 in the place of the output based methods implemented since this date, the UK GDP growth would have been higher by 0.5% per year during the last five years. This illustrates that there is probably a major comparability issue between OECD countries stemming from the measurement of non market output. First, one can therefore consider that it is safer for analysts to compare growth and productivity excluding the non market sector. This means that users should have easier access to international data on the market sector, separated from the non market sector. Second, more should be done to analyze the impact of differing methods on the comparability of volume growth total non market output (and GDP).

Recommendation 4: *international data on goods and services accounts should separate the market sector from the non market sector. The OECD should analyze and propose a classification derived from the existing classification that would approximate the market sector, and promote the incorporation of this classification in its database.*

Recommendation 5: *the OECD should try to measure the impact of differing methods on the measurement of total non market output, based on partnership with volunteer countries.*

4. International manuals could be upgraded

5. The Atkinson report and the Eurostat Handbook on Price and Volume indices, sets series of principles, which can apply to all countries. These principles could form the basis of a partial redrafting of

the SNA paragraphs 16-133 to 16-141, and /or form the basis of a specific chapter of an implementation guide to the new SNA.

6. In particular,

- The concepts (and links between them) of input / activity / output / outcome could be better explained in the SNA.
- The objective should be to measure output from government spending in terms of its incremental contribution to individual or collective welfare, in the same way as market output.
- Criteria should be described for the implementation of an output measure: (a) it should cover the full range of services for that functional area, (ii) it should make allowance for quality change, (iii) the effects of its introduction have been tested by the service, (iv) the context in which they will be published has been fully assessed, in particular the implied productivity measures.
- The measurements of inputs should be as comprehensive as possible and should include capital services. This implies a change in the SNA regarding the measurement of non market output at current price, which should be extended to include the opportunity cost of the capital employed. This issue is specifically discussed in the Canberra II group.
- The value of the non market output should be adjusted for quality; for each service, explicit consideration should be given to the incorporation of quality change as an element of value added; for each spending function, consideration should be given to the extent to which the quality change is captured by the changing activity mix, and to the way in which output measures of government should be adjusted for increased real value in an economy with rising real GDP.

Recommendation 6: *the WPNA recommends that the ISWGNA considers the principles set in the Atkinson Interim Report and the Eurostat Manual on Prices and Volume as valuable inputs for the redrafting of paragraphs 16.133 to 16.141 of the SNA, or for inclusion in an implementation guide of the new SNA. This is not a change to the SNA. It is simply a clarification setting the conditions of good output based indicators.*

5. Users should be able to derive productivity based on alternative input measures

7. As extremely clearly stated in the Atkinson report, it is as much important to measure well inputs as to measure well output to obtain a reliable productivity number. The definition of inputs in the SNA is dependant on the classification of expenditures between current and capital. Some expenditures that are classified as current in the SNA can be considered capital by productivity analysts. One important example is training. In the current SNA, an increase of expenditures in the training of civil servants will appear as an increase of the input in the period the training takes place, while its effects take place long after. Associated with an output based measure of output, this inevitably creates an unwelcome decrease in productivity during the training period. For productivity analysis, it would be better to assign training costs to the whole period during which training expenditures will affect output. This means treating training as capital input. Such a change has been rejected by the ISWGNA, because of the consequence that such a change would have on the whole sequence of accounts. However, some progress could be made without introducing this change. The simple fact that training costs would appear as a separate item in the classification of the SNA would allow users to derive an alternative measure of productivity, without affecting the framework of the SNA.

Recommendation 7. *Training costs should appear specifically in the SNA classifications, allowing users to compile alternative measures, as if training was of a capital nature.*