NEW WORLD SYSTEM OF NATIONAL ACCOUNTS

The OECD, jointly with the United Nations, the European Union, the International Monetary Fund, and the World Bank, has just issued a new revision of the System of National Accounts (SNA).

This revision is the first for 25 years, thus modifying the accounting framework used for statistical and economic analysis to reflect radically changed economic, social and political structures over the last two decades, including the end of the Cold War.

It is the first SNA to be applied throughout virtually the entire world, as the former Communist countries almost without exception have declared their intention to drop the Material Product Accounting System in favour of the SNA. The United States, which up to now has used a variant of its own, has also begun the transition to the new system.

This is the first SNA to be jointly issued by the five international agencies reflecting collaboration on an unprecedented scale between international and national statistical agencies and experts.

The new SNA, thus, can appropriately be characterised as a world system.

The SNA consists of a set of economic accounts which record the various stocks and flows that make up the economic system in ways that meet the information needs of economic analysts and policy makers. Its main purpose is not to measure a few aggregates for the economy as a whole, such as Gross Domestic Product (GDP). The System is more oriented to chart the flows taking place within an economy resulting from the interactions of different kinds of economic agents, such as enterprises, households and central and local government units. The SNA focuses primarily on market transactions since so many economic policy decisions influence the way in which markets, including financial and labour markets, operate. The accounts are specifically...
intended to provide information that is needed for the analysis of major market imbalances such as unemployment or inflation. However, the system also includes some non-market flows, such as agricultural production for own consumption.

National accounts are compiled either by national statistical offices or central banks. They are used by governments and central banks to monitor economic developments and to assist in the formulation of their fiscal and monetary policies. They are also extensively used by businesses, employers’ associations and trade unions, research institutes, universities, forecasting agencies, international organisations and the press.

Countries first started to compile national accounts during or shortly after the Second World War. Comparable information about the state of European economies was needed for purposes of implementing the Marshall Aid programme and this led to the development of a common international system of accounts in the early 1950s in which the Organisation of European Economic Co-operation (OEEC), the precursor of the OECD, played a leading part, together with the United Nations. The international system was masterminded by Sir Richard Stone who later received the Nobel Prize for Economics for this work. Over subsequent years most countries adopted the common international system, the SNA, for their own national purposes.

The revision process

The last major revision of the SNA was completed in 1968. Work on the present revision started in the mid-1980s and was completed during 1993. The revision was organised and managed by the five international organisations listed above, all of whom need internationally comparable national accounts data. It was decided to pool the resources and expertise of the five organisations and a special inter-agency group was created. A series of high-level expert group meetings was also arranged over a period of seven years to advise on the kinds of changes needed. The experts were drawn from countries throughout the world in order to ensure that the needs and interests of both developing and developed countries were properly taken into account. In the early 1990s experts from the previously centrally-planned economies of Eastern and Central Europe also became actively involved when these countries decided to adopt the SNA instead of the so-called Material Product Accounting System previously used by Communist countries.

A joint programme and publication

The 1993 SNA has been produced jointly by the five organisations, demonstrating their collective commitment to use a single system and to encourage national statistical offices throughout the world to do the same. Previous differences of definition or classification between the SNA and other more specialised systems of statistics for which the international organisations may be responsible, for example balance of payments statistics, have also been largely eliminated in the revision process.
The nature of the revision

The revision was intended to:

- update the System to take account of changes in economic structure, markets and financial and policy instruments over the last 25 years;
- reflect new policy objectives and concerns;
- implement advances in economics and accounting.

For example, the 1993 version of the SNA spells out in detail the treatment of VAT and financial leasing whereas the 1968 version says nothing about them because they scarcely existed in the 1960s. Similarly, the 1993 version pays much more attention to accounting under conditions of high and prolonged inflation which became a major policy concern from the mid-1970s onwards. The 1993 SNA also extends the 1968 SNA by systematically integrating balance sheets with the flow accounts. The balance sheets of the System include all assets from which economic benefits may be derived, including natural assets such as land, forests, wildlife, mineral and fuel deposits, and inland waters, which are under the control of economic units. It is thus possible to link the 1993 SNA to more specialised systems of environmental accounts in which physical indicators play an important role.

Some changes reflect shifts in economic thinking. For example, the boundary between consumption and capital formation (and hence saving) has been shifted by treating as capital assets some items previously recorded as consumption goods. Up to now, all expenditures by the military on structures or equipment have traditionally been treated as current, whereas in the new SNA expenditures by the military on airfields, docks, roads, hospitals, schools, transport equipment, computers or other assets with alternative civilian uses are now treated as capital formation. Similarly, expenditures on goods such as gold or works of art held as stores of value are now treated as capital formation instead of consumption. While serious consideration was given to reclassifying expenditures on Research and Development as capital formation, it was felt to be premature until a satisfactory and feasible method of accounting for R&D assets over time can be worked out.

An interesting innovation in the 1993 System concerns expenditures by governments on goods or services, such as health and education, that are provided free to households for their consumption. These are recorded in two ways. First, they appear as current expenditures by government because governments control and finance these expenditures. Second, in an alternative presentation, the value of the goods and services in question is added to the value of household consumption expenditures to obtain a more comprehensive measure of the total value of the goods and services actually consumed by households. This measure is more illuminating for international comparisons of consumption for welfare purposes. By attributing the consumption of these items to households, the actual consumption of government can also be seen to be much less than is commonly perceived. Although governments pay for these items they do not actually consume them.
The OECD’s role in national accounts

The OECD uses the SNA to obtain internationally comparable national accounts data for all of its 24 Member countries. The data are published each year on computer diskettes and magnetic tapes as well as in printed form.

Recently, the OECD has increasingly been asked to help the countries of Eastern Europe and the former Soviet Union to prepare to implement the 1993 SNA instead of the former Material Product Accounting System. In agreement with the other international organisations, the OECD now acts as the focal point agency for technical assistance in national accounts to these countries with the help of experts from its Member countries and other international organisations.

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