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MAIN AGGREGATES IN NATIONAL ACCOUNTS

(Note prepared by the United Nations Statistical Office)

..... The attached note on the Main Aggregates in National Accounts
was submitted to the Committee on Contributions at its twentieth session
as a working paper.

NOTE ON THE MAIN AGGREGATES IN NATIONAL ACCOUNTS

1. Very broadly, relative capacity to pay towards the expenses of the United Nations might be determined by the total value of production of goods and services attributable to factors of production supplied by normal residents of a given country.
2. The factors of production are commonly distinguished as labour, land and man-made capital. The term resident, which includes both individuals and institutions such as government agencies, corporations and non-profit institutions, is defined separately in paragraph 14.
3. In estimating the total value of production in the sense intended in paragraph 1, means must be employed either of excluding the value of intermediate products, that is, those used up in the production of other products, or of isolating final products destined for current consumption, capital formation or export. The required total of production free of duplication can be obtained in three ways. The first method is to sum the contributions of each producer by deducting from the value of gross output purchases from other producers (including imports); the second method is to sum directly expenditures on final products and deduct imports to arrive at the total value of production. Since the contribution of each producer is identically equal to wages and salaries, rent, interest and profits (i.e., incomes payable for factor services), a third method is to measure product from income side. These three methods lead respectively to the following classifications of the total value of production: (i) by industrial or institutional origin, (ii) by type of final expenditure and (iii) by distributive shares.
4. If the contributions to production of all domestic producers are added, the resulting total measures the domestic product or the production taking place in what is called the domestic territory of the country. Some of the value added in this production accrues to foreign suppliers of factor services rather than to normal residents of the country. On the other hand, the latter derive, in addition to income which accrues to them from domestic production, income from factor services they have supplied abroad. If the domestic product is adjusted for these external flows of factor income by subtracting the outward and adding the inward, there results a total termed the national product.

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Examples of factor incomes from (to) abroad are investment income (dividends and interest) and wages and salaries. Principal items of factor income from (to) abroad are defined in the Balance of Payments Manual International Monetary Fund, February 1960.

5. In the preceding definition of production, fixed capital used up in the process of production was not deducted from the gross output of each producer since it did not involve a purchase from another producer. Consequently product has been so far defined on gross basis, that is, before any provision for depreciation of fixed capital. Since this depreciation or consumption of fixed capital is similar to consumption of raw materials and the like, it should accordingly be deducted from gross product as defined above to arrive at a measure of the true or net product of the economy.

6. In a system in which there are indirect taxes^{1/} and subsidies the market value of all final products exceeds the total of incomes accruing to factors of production by the excess of indirect taxes over subsidies. In these circumstances it is convenient to value final products at market prices, that is to say, inclusive of indirect taxes and exclusive of subsidies, since these are the prices actually paid by final buyers. It would be possible, in principle, to value final products at factor cost but it is more interesting to adopt this procedure in the classification of production by industrial origin.

7. These alternative concepts of product may be defined in summary form as follows:

8. Gross national product at market prices is the market value of the product (before deduction of depreciation of fixed capital) attributable to factors of production supplied by normal residents of a given country. It is identically equal to the sum of consumption expenditure and gross domestic capital formation, private and public, and exports minus imports of goods and services plus net

^{1/} When paid by business, indirect taxes are those chargeable to business expense; when paid by individuals these taxes are those not levied regularly on income or wealth, and in the assessment of which no account is taken of the personal circumstances of the taxpayer, i.e. these are taxes on the possession or use of goods and services by households. The main categories of indirect taxes are import, export and excise duties, entertainment duties, betting taxes, sales taxes, business licences, stamp duties, motor vehicle duties, taxes on the operation of wireless and television sets, etc.

factor incomes received from abroad. Gross domestic product at market prices differs from gross national product at market prices by the exclusion of net factor incomes received from abroad. Gross domestic product at factor cost differs from gross domestic product at market prices by the exclusion of the excess of indirect taxes over subsidies. Net domestic product at factor cost differs from gross domestic product at factor cost by the exclusion of depreciation of fixed capital. Net national product at factor cost is the value at factor cost of the product (after deduction of depreciation of fixed capital) attributable to factors of production supplied by normal residents of a given country. It is identically equal to national income, which is the sum of incomes accruing to factors of production supplied by normal residents of a given country before deduction of direct taxes.^{2/} The factor incomes comprise wages and salaries, rent, interest and profits. Wages and salaries are, roughly speaking, a payment for the factor - labour. The sum of the remaining three payments - rent, interest and profits - is chiefly property income, and as such is a payment for the use of land and capital.

9. The ensuing presentation is intended to further clarify the relationships among the aggregates defined in paragraph 8.

Gross national product at market prices
less net factor income from abroad
equals gross domestic product at market prices
less indirect taxes net of subsidies
equals gross domestic product at factor cost
less depreciation of fixed capital
equals net domestic product at factor cost
plus net factor income from abroad
equals net national product at factor cost or national income

^{2/} These include taxes on corporations and co-operatives levied at regular intervals on the profits, capital or net worth of these enterprises. In addition, all taxes levied as a charge on the income of households and private non-profit institutions such as personal income taxes, surtaxes, etc. and social security contributions of both employers and employees are examples of direct taxes.

10. For the work of the Committee on Contributions figures are assembled or prepared in accordance with the concept of national income as defined immediately above.

11. Reference has been made, in document A/CN.2/R.150, paragraph 8, to problems arising in the application of the concept of national income to economies of the less developed countries, particularly with reference to the inclusion of the so-called "subsistence income" of the rural population. Following are the principal rules that should be applied in the preparation of national income estimates for the subsistence economy of the less developed countries.

12. In the case of primary producers, that is, those engaged in agriculture, forestry, fishing and mining, all primary production, whether exchanged or not, and all other goods and services produced and exchanged are included in the total of production. In the case of other producers, there is included the total of their production which is exchanged together with the unexchanged parts of their production in their own trade and of their primary production. As a result, the net amount of all non-primary production performed by producers outside their own trades and consumed by themselves is omitted.

13. These rules not only provide for the inclusion in production of the output of enterprises, but determine the inclusion of household activities which are akin to those usually undertaken in enterprises. They allow for the customary inclusion of farm output consumed in farm households or paid in kind to farm workers.

14. It is evident from the foregoing that the term normal residents is of considerable significance in distinguishing the domestic from the national concept. The term resident includes both individuals and institutions. Resident individuals include citizens of the compiling country living there permanently. Members of diplomatic and consular staff, official missions, and members of armed forces stationed abroad, and citizens studying or undergoing medical treatment abroad are considered residents of their own country rather than of the country where they are staying. However, staffs of international agencies are regarded as residents of the countries in which they are stationed rather than their home countries. The extent to which other citizens living abroad are treated as residents (travellers) or foreigners (emigrants) depends on a

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number of factors, such as the permanence of their stay abroad and the extent to which they concentrate abroad their earning activities and their investments, i.e., the extent to which they shift their general "center of interest". The same principle of "center of interest" determines whether a citizen of a foreign country staying in the compiling country should be considered a resident of the latter. Resident institutions of a given country include the central Government, all local governments and all business enterprises and non-profit organizations located in the country, but not their foreign branches or subsidiaries. Branches and subsidiaries are treated as residents of the country in which they operate, because they are considered an integral part of that country's economy. Agencies of the compiling country's Government operating abroad, such as embassies or military units, are regarded as residents of the compiling country, and conversely the agencies of foreign Governments in the compiling country are regarded as foreigners. Agencies of business enterprises are regarded as residents of the countries in which the agencies operate.
