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TREATING GOVERNMENT EXPENDITURE & CAPITAL FORMATION IN THE ICP

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David Roberts, OECD, Tunis,
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GOVERNMENT EXPENDITURE

“GOVERNMENT EXPENDITURE” IN SNA 93

- “Government” is:
 - general government i.e. the institutional sector that consists of central, regional, state, local government units & the social security funds they control
- “Expenditure” is:
 - final consumption expenditure i.e. expenditure on goods & services consumed by households either individually or collectively
- Called “government final consumption expenditure” or “GFCE”

GFCE IN SNA 93

- Individual consumption expenditure by government
 - expenditure on services provided to individual households:
 - “housing, health, recreation & culture, education, social protection” or “individual services”
- Collective consumption expenditure by government
 - expenditure on services provided to households collectively:
 - “general public administration, defence, public order & safety, economic affairs, environment protection, housing & community amenities” or “collective services”

IN THE ICP CLASSIFICATION I

- Individual services are separately identified:
 - housing*
 - health
 - recreation & culture*
 - education
 - social protection*
- Collective services are not separately identified but treated as a single service
- * Prices are not collected for these expenditure categories; they are deflated using reference PPPs

IN THE ICP CLASSIFICATION II

- A distinction is made between individual services that government purchases from market producers & those it produces itself:
 - health benefits & reimbursements*
 - production of health services
 - education benefits & reimbursements*
 - production of education services
- Collective services are produced by government
- * Prices are not collected for these expenditure groups; they are deflated using reference PPPs

NON-MARKET SERVICES I

- Government produced health, education & collective services are called “non-market services”
- They are provided free or at a price that is not a market price (i.e. a price that influences the amounts producers supply & purchasers buy)
- Without market prices it is not possible to value the output of producers of non-market services
- National accountants by convention obtain the value of the output of non-market services by summing their costs of production

NON-MARKET SERVICES II

- To maintain consistency with expenditure estimates PPPs for non-market services are derived using the purchasers' prices of inputs
- This is called the “input price approach” & requires expenditures to be broken down by cost structure
- A serious & unresolved weakness of the input price approach is that it does not take into account the differences in productivity between the producers of non-market services in different countries

IN THE ICP CLASSIFICATION III

- Cost structure for expenditure on government produced health, education & collective services is as follows:
 - compensation of employees
 - intermediate consumption*
 - gross operating surplus*
 - net taxes on production*
 - receipts from sales*
- * Prices are not collected for these expenditure classes; they are deflated using reference PPPs

SURVEY OF COMPENSATION OF EMPLOYEES

(Please refer to Box 1 in the handout)

- Survey covers a selection of 46 occupations in general government (29), public education (18) & public hospitals (12)
- Selection designed to provide a representative cross-section of the education & skill levels in government
- Occupations defined according to the ISCO-88
- Object of the survey is to determine the compensation of employees paid to each of the selected occupations

SURVEY OF COMPENSATION OF EMPLOYEES

(Please refer to Boxes 2 & 3 in the handout)

- Compensation of employees is the sum of gross salary, employer's actual social contribution & imputed social contribution (Box 2)
- Step 1: establish the basic salary for each occupation using prevailing salary scales (Box 3)
- Step 2: compute other components of compensation of employees based on the basic salary established
- For each occupation report working hours per week, holidays & public holidays per year & weight within its basic heading

Are there any questions?

CAPITAL FORMATION

GROSS CAPITAL FORMATION IN SNA 93

Comprises:

- Gross fixed capital formation (GFCF)
- Changes in inventories*
- Acquisitions less disposals of valuables*

* Prices are not collected for these expenditure categories; they are deflated using reference PPPs

GROSS FIXED CAPITAL FORMATION OR GFCF

Comprises (around 20% GDP for the OECD):

- Machinery & equipment (“equipment goods”)
- Construction
- Other products*:
 - computer software; plantation & vineyard development; changes in stocks of breeding stock, draught animals, dairy cattle, etc.; land improvement; mineral exploration; etc.

* Prices are not collected for this expenditure category; it is deflated using a reference PPP

EQUIPMENT GOODS & CONSTRUCTION

- Difficult areas for which to collect national annual prices that are:
 - for comparable items
 - for representative items
 - consistent with the expenditure estimates
- This is mainly because of:
 - complexity of the products
 - variation in the products
 - “piecemeal” pricing
 - outsourcing the pricing exercise
 - cost of collecting prices

EQUIPMENT GOODS & CONSTRUCTION

- Restrict surveys to collecting “national” mid-year (July) prices that are:
 - for comparable items
 - consistent with the expenditure estimates
- Representativity introduced through:
 - the selection of products for the product list
 - having alternative specifications for the same product
 - allowing flexibility in the interpretation of specifications

EQUIPMENT GOODS – STANDARD APPROACH

- Specification pricing:
 - products are defined in terms of the characteristics that influence their purchasers' price
 - by pricing products as specified countries price to constant quality to produce price relatives that reflect “pure” price differences
- Characteristics specified will cover:
 - the product (performance, operation, quality)
 - the transaction (order size, discounts, delivery, installation & non-deductible tax on products)

EUROSTAT-OECD PRODUCT SPECIFICATION & REPORTING FORM

(Please refer to Box 4 in the handout)

Six parts:

- Product type & reporting country
- Make & model
- Technical characteristics
- Transaction characteristics
- Options
- Notes

EQUIPMENT GOODS - STANDARD APPROACH

- Prices can be obtained from:
 - purchasers
 - distributors; importers; producers
 - producer price index
- Either directly by letter, telephone or personal visit or indirectly from catalogues or internet sites
- In all cases the price reported should be either actual or “fictitious actual” transaction prices
 - i.e. the price purchasers actually pay or would have to pay for the equipment good to be delivered in working order to where it will be used

EQUIPMENT GOODS - ANOTHER APPROACH

- Proposed for countries that import most, if not all, their equipment goods
- Exchange rate adjusted for:
 - import tax
 - other non-deductible taxes on products
 - transport & delivery charges
 - trade margins
 - etc.
- Approach to be researched & developed by the Global Office

CONSTRUCTION – COST APPROACH

- Pricing a basket of inputs covering:
 - different labour skills
 - standard building materials
 - hire of plant & equipment
- Does not provide a purchasers' price, excludes:
 - main office overheads & preliminary expenses
 - subcontractors' & prime contractor's margins
 - architect's & engineer's fees
 - non-deductible taxes on products
- Also a question of weights

CONSTRUCTION – PRICE APPROACH

- Pricing standard construction projects covering:
 - cost of labour, materials, plant & sub-contracting
 - main office overheads
 - preliminary expenses
 - prime contractor's profit (or loss)
 - architect's & engineer's fees
 - non-deductible taxes on products
- And described in bills of quantities (self-weighting)

EUROSTAT-OECD STANDARD PROJECTS

(Please refer to Box 5 in the handout)

- 16 projects:
 - 7 residential buildings
 - 5 non-residential buildings
 - 4 civil engineering works
- Countries to price 9 projects (3 of each type of construction)
- Pricing scheme assigning project to countries on the basis of representativity & the need to link countries

EUROSTAT-OECD - BILLS OF QUANTITIES

(Please refer to Boxes 6 & 7 in the handout)

- Each bill is divided up into major components (Box 7)
- Then broken down into elementary components (Box 6)
- By pricing the elementary units & summing a price is obtained for each major component (Box 6)
- Summing the prices of the major components provides the price of work done (Box 7)
- Total price of construction project obtained by adjusting price of work done for architect's fees & non-deductible tax on products (Box 7)

EUROSTAT-OECD - SOURCES OF UNIT PRICES

- Actual bills of quantities that have been valued for purposes of tenders by construction companies
 - either tenders that have been successful
 - or unsuccessful but realistic tenders (permit the carrying out of work in good condition)
- Database of unit costs that major consultancy firms & research units maintain for the construction industry
 - necessary to adjust to unit prices using the total prices of successful tenders to establish the level to which the unit costs should be raised

CONSTRUCTION – CIS APPROACH

- Pricing a detailed basket of inputs covering:
 - different labour skills
 - standard building materials
 - hire of plant & equipment
 - main office overheads & preliminary expenses
 - subcontractors' & prime contractor's margins
 - architect's & engineer's fees
 - non-deductible taxes on products
- Prices of inputs can be used in different models specified in “bills of quantities”

Are there any questions?