

Introduction:

My presentation deals with the underlying economic and accounting concepts on which the national accounts are structured. It also addresses the current System of National Accounts, (SNA) as recommended by the Statistics Office of the United Nations. It is meant as a review of the basic notions of the accounts and as an aid in reviewing national account measures.

Framework:

The System of National Accounts (SNA) provides a comprehensive and detailed framework within which the economic activities of a country are recorded. The framework forces the entries to be made in a systematic manner which integrates the flows and stocks of an economy. It is a means of measuring and recording production, consumption and accumulation activities in the economy during a given period. It brings together data, at both total and detailed levels, into a fully explained system.

The consolidated accounts of the nation are summary tables. Yet, they are integrated with the detailed input-output and flow-of-funds tables. The system also allows for recording of national wealth by various physical assets and links these stocks to the flow activity of the economy.

The system of national accounts is designed to provide international guidance to national statistical authorities. It is for those who wish to improve, elaborate and extend their national accounts and their systems of basic statistics. It integrates and links the definition and classifications of all flows and stocks into a coherent structure. Therefore, it is an excellent tool to use for planning the gathering and compiling of data. These are the coordinated bodies of basic data required for economic and social analysis. The system also serves

AN INTRODUCTION TO NATIONAL ACCOUNTS CONCEPTS: AN OVERVIEW

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as a basis for the reporting of comparable national accounting data to the United Nations and other international bodies. This information is used to construct coordinated international guidelines and standards for other reports as well.

Concepts:

The system of national accounts is based on economic and accounting. Economics provides the theory for showing relationships between the economic variables found in the economy. Accounting provides the framework or meeting place for economic theory and practical measurement.

Economics provides an understanding of the workings of the economy. It shows the relationships between producers and consumers of goods and services and the government. It also describes the economic activity of production, consumption and accumulation in the economy. In addition, it defines the domestic transactions with the rest of the world. Economics sets up the relationships between production and income, between factors of production and wages, and between saving and investment.

The accounting approach provides the means for recording the transactions that occur in the economy. It provides a system of classification of transactions. It also serves as a guide for collect-

ing economic information and the basis for presenting information on economic transactions. The double entry or classical system of offsetting debits and credits is the major contribution of accounting. It links all entries and all accounts in the national economic accounts. Outgoings must be offset by incomings in another account. Receipts offset payments, outputs are the counter entry for inputs and the entire system must balance. Let us examine the accounting contributions in more detail.

Classification of Transactions:

The accounting approach provides a means of handling the problems of consistency in definitions. This occurs when we pass from general theoretical definitions to detailed descriptions of their empirical relationships. A classification of transactions must satisfy as far as possible both theoretical and practical criteria. Many times data are collected for various purposes and are based on various definitions and classifications. The national accounts use a standard system of definitions and classifications which insures conceptual consistency and clarity of the data used.

A basis for Collecting Economic Information:

An accounting approach shows what information to collect and how to arrange these data. This is needed to describe in numerical terms any particular theoretical system capable of such description.

In addition, it provides a basis for collecting economic information by sample surveys of different types of transactors. This offers better coverage, increased accuracy, the estimation of sampling error and reduced cost.

It enables the most efficient use to be made of the information available. It brings to light the many relationships that exist in the system of transactions and explains how these elements are connected to each other.

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Presentation of information or Economic transactions:

An accounting approach provides the means of showing the structure of the economy. This gives a better understanding of the way of which its parts are related and the way in which it works.

In developing government policy, an accounting approach is particularly useful in forecasting. Forecasting the elements of an interrelated system puts restrictions on each element since certain equations have to be fulfilled and relationships maintained.

For international comparisons, a system of social accounts helps showing relationships of the economic structures of different countries. It also provides a basis on which the comparison of statistical information for different countries can be improved.

Measures:

The central concept of the national accounts is the Gross Domestic Product or GDP. It is the most widely used measure of the nation's production. It is the basic measure of the output arising from the economic activity that takes place in the country. It is used to track the ups and downs of the economy and to check the economic growth of the nation.

Used with measures of labor and capital input, it provides indicators of the nations' productivity. Therefore, GDP is a primary focus in the analysis of the current economic situation, in macroeconomic forecasting and in policy formulation.

Methods of Measurement:

There are three approaches that can be used to measure the gross domestic product of a nation.

1. Production Approach:

The first approach looks at the way output is produced. It measures the contribution to output made by each producer. The value of the goods and services bought from other producers is deducted from its own output. This eliminates double counting of production. The remainder is the value added by the producer in question; the goods used up in production is intermediate consumption. With some minor adjustments, the total value added by all producers equals Gross Domestic Product by kind of economic activity. This method of compilation is commonly known as the production approach to GDP.

2. Expenditure Approach:

The second method, known as the expenditure approach, looks at the final uses of the country's output. This includes private consumption, government consumption, capital formation, and exports less imports. Thus, it shows what becomes of the output.

There are two ways to get estimates of final expenditures on GDP. First, the output of goods and services are traced through the economy from their original producers to their final users. This is known as the commodity flow approach.

Alternatively, the receipts and expenditures of the various economic transactors of the system can be looked at directly to identify the expenditures that are final. This is often referred to as direct estimation of final expenditures.

3. Income or Cost Approach:

The third approach considers the costs incurred by the producer within his own operation. These include the incomes paid out to employees, indirect taxes, consumption of fixed capital, and the operating surplus. This also adds up to the value added. This method is often called the income approach. It may more exactly be referred to as the cost approach. The information generated by the cost approach also can be arranged by industry of origin. Which is the same arrangement as used in the production approach. Both approaches, cost and production, produce a measure of value added. The production approach measures the output. The cost approach measures the items of cost incurred in the production of output. A summary of the tables is attached.

Conclusion:

The system of national accounts provides a framework for measuring the economic activity of the nation. The economic and accounting concepts provide the basis for the structure of the accounts. The Gross Domestic Product and the national accounts estimates provide a picture of the economy at a moment in time. By viewing these pictures over time, we can identify the progress the country has made. By using these measures for analysis we present a profile of the economy. A better understanding of the capabilities of the economy allows for efficient planning and utilization of the factors of production. The data used in the national accounts becomes a significant aspect of the reliability of the estimates.

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by importing them at the correct time and adjusting the import policies (tariffs etc.) to sell them at an appropriate price in the local market. Although red onions have been imported to fill the gap in the local market, it had not affected the local production too much since the price of imported red onions was always higher than the price of locally produced red onions.

Though the Paddy Marketing Board, (PMB) operates Floor Prices Scheme (FPS) to purchase a number of minor food crops their purchases of onion under FPS is not very significant. Farmers sell their produce of red onion and bombay onion to other institutions and to the private sector. Perhaps at prices higher than this floor price.

According to their nature red onion need specific type of storage facilities, otherwise they can be kept only for a very few months. PMB Stores their purchases of red onion in the ware houses which were designed for storage of

paddy and not suitable for storage of onions. If the better storage facilities were in red onion production can be kept for a long period of time is available producer prices could be maintained without high fluctuations. Since poor producer price in a given year influence the farmers to reduce their production in the next year maintenance of producer prices without high fluctuations, in a long run, help to continue the production with sustain growth by ensuring a good income to the farmers. By releasing the stored onion systematically to the market, consumer prices of onions too could be continued without high fluctuations in the long run i.e., during the production season as well as off season and during the time of high production as well as the low production. This, in turn, protect the consumer to a good extent from scarcity and higher prices of red onion. Since the red onion is an important food item, price variation in this item directly effect the cost of living of the consumer.

The harvest of bombay onion, particularly in the Matala district, was not in good quality. As a result of that farmers faced the problem of marketing their bombay onion production at a good price. While high quality onions can be stored longer period, they ensure high prices to the producer on the one hand and on the other they fulfill the high preference of the consumer. By educating the farmers and improving the extension services given to them farmers could be encouraged to produce onion with high quality.

With regard to increase of onion production, increase of average yield is important since the current average yield is not upto the potential level. Number of measures are required to increase the average yield in this sector. More emphasis should be paid to develop and provide better high yielding seed varieties. As the fertilizer application is far below the required level, fertilizer usage should be encouraged through a good mechanism of fertilizer prices and producer's onion prices as well. Promotion of use of organic fertilizer instead of chemical fertilizer would lead to reduction of farmer's production cost. ■

H. L.

Table 2
Local Production of Bombay Onions

Year	Extent Cultivated Hectares	Estimated Yield per hectare Mt. Tons	Production '000 Mt. Tons
1979	134	7.3	1.0
1980	42	9.5	0.4
1981	96	9.4	0.9
1982	170	10.7	1.8
1983	217	11.0	2.4
1985	208	11.3	2.4
1986	515	10.8	5.6
1987	467	11.3	5.3
1988	575		4.2

Source: Ministry of Agriculture, Food & Co-operatives

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The National Accounts are only as good as the data available for the estimates.

Table 1. Gross domestic product by kind of economic activity

Kind of economic activity

1. Agriculture, hunting, forestry and fishing
2. Mining and quarrying
3. Manufacturing
4. Electricity, gas and water
5. Construction
6. Wholesale and retail trade, and restaur-

- ants and hotels
7. Transport, storage and communication
8. Financing, insurance, real estate and business services
9. Community, social and personal services

Subtotal:

Adjustments:

Less: imputed bank service charge

Plus: import duties

Plus: value added tax

Equals: gross domestic product

Table 2. Cost components of gross domestic product

Indirect taxes, net

Table 3. Expenditures on gross domestic product

Government final consumption expenditure

Private final consumption expenditure

Households
Private non-profit institutions serving households

Gross capital formation

Increase in stocks

Gross fixed capital formation

Residential construction

Other construction, land development etc.

Other

Exports of goods and services

Less: imports of goods and services

Gross domestic product ■