

Part II
SEMINAR-WORKSHOP PAPERS

TOWARDS A MORE ARTICULATED AND RELEVANT SYSTEM OF NATIONAL ACCOUNTS

Pablo Q. Samson and Tomas P. Africa

I. A REVIEW OF THE NAS PROGRAM OF IMPROVEMENT OF THE PHILIPPINE SYSTEM OF NATIONAL ACCOUNTS

It has been more than six years since the last workshop on the system of national accounts was held at the Continuing Education Center in Los Baños, Laguna in November 1976. Two months earlier, a new series of the national accounts had been completed after a year-long program of overall revision to make the accounts more responsive to the needs of development planning and policy formulation. This new series became the focal point in the evaluation and drawing up of prospects and recommendations for the further improvement of the Philippine System of National Accounts.

In review, the set of recommendations that evolved from that Workshop was grouped into four categories, namely: (1) conceptual and classification problems, (2) methodology, (3) improvement of data base, and (4) elaborations and presentation of the accounts. These, in effect, served as the core of the staff's research and improvement program for the past six and a half years.

Articulation of the Accounts

Acceptable solutions to conceptual and classification problems have evolved on an as needed basis in consideration of the recommendations of the new UN System of National Accounts and Philippine planning and policy requirements.

Staff papers have assessed alternative approaches and identified the appropriate treatment of organizational cost, start-up activities of new plants, interest expenses, etc. Problems relative to production boundaries in the estimation of regional product in fishery, transport, communication and utilities have so far been satisfactorily resolved for regional planning needs. Work has also been done in distinguishing between spare parts and durable equipment.

Director and Head of the Production Accounts Branch, respectively, of the National Accounts Staff, Statistical Coordination Office, National Economic and Development Authority.

Under recommendations bearing on methodology and improvement of data base, the progress of work has been less satisfactory, although results of intensive activities on the improvement of data systems during the last two years appear promising.

Nevertheless, some recommendations have been implemented and now constitute part of the present methodology. The valuation issue of new minerals and of agricultural output and inputs has been resolved. The estimation of expenditures on durable equipment has been examined in terms of expected life and trade and transport markups. The expansion of establishment surveys to cover emerging and/or sizable production activities such as offshore banking, oil drilling, and agricultural services is being attended to. The development of improved questionnaires has proceeded hand in hand with pilot surveys to study nonsampling errors in the family income and expenditure surveys.

Some of the other recommendations have also been considered but present data gathering and processing techniques cannot as yet accommodate the requirements of the necessary improvement activities. The proposed expansion of the price series to cover rural areas could not be implemented because of budgetary constraints. Representations were made to process the statements of assets and liabilities, but a higher priority has yet to be assigned to this activity. Similarly, resources have yet to be allocated to bring about a periodic survey of nonprofit institutions.

Work on constant price estimates through double deflation was set aside in favor of the more urgent requirements for the improvement of price indices for exports and imports and the development of producers' price indices for all sectors of the economy.

Activities relating to the elaboration and presentation of the accounts have proceeded on a selective basis depending on priorities and on the availability of data inputs. The functional classifications of government expenditures, personal consumption expenditures by broad expenditure groups, and econometric parameters¹ have been presented regularly in the system of national accounts in an attempt to enhance the usefulness of the accounts in economic analysis.

During the last two years, the thrust of SCO coordination acti-

1. These included derived indicators such as tax revenue effort, marginal savings rate, incremental capital-output ratio, import elasticity, and export elasticities for products of agriculture, mining and manufacturing.

and relevance of data generating systems. In pursuance of relevant provisions of LOI 1082, the Office was in the forefront of developmental activities to generate a new set of economic indicators covering gross sales, production, employment, compensation, average earnings, and producers' prices. These necessitated the redesigning and setting up of collection and field processing subsystems to improve the timeliness and adequacy of the Quarterly Survey of Establishments (QSE). As a complementary measure, the SCO launched the Survey of Key Manufacturing Enterprises (SKEM)² to provide "flash" indicators of performance of critical industries.

These improvement activities have been expanded to cover the revamp of the entire system of establishment enquiries to make it more responsive to the increasing requirements of planning and policy formulation processes. A parallel activity has likewise been directed towards the improvement of the household surveys through the development of complete package modules covering the labor force, family income and expenditures, housing, food and energy consumption, family operated activities, and other social areas of concern.

The National Accounts as an Integrating Framework

Since the last NI Workshop, several accounts have been constantly updated and developed to integrate and articulate the various dimensions of the system of national accounts. The Social Accounting Matrix (SAM), which incorporates into the national accounts aggregates the distribution aspects of factor incomes to the various types of households and other institutions and the utilization of such incomes in the production, consumption, and accumulation processes, has been developed for 1972, 1974 and 1978.

The Flow-of-Funds accounts which show the sources and uses of funds of the various institutions within the domestic economy were initiated as a collaborative undertaking between the NEDA and the Central Bank in 1977, thus adding the financial dimension to the flow of goods and services presented in the national income and product accounts. Flow-of-Funds accounts have been prepared annually for the period 1974-79.

2. The SKEM monitors on a monthly basis the monthly production, employment, and earnings of workers in large manufacturing enterprises selected from among the top 500 large corporations with head offices in Metropolitan Manila.

The era of rapidly increasing oil prices in the late 1970's saw the emergence of input-output data and techniques in the quantification of price effects of projected oil price increases and the concomitant repercussions of various policy options/decisions in response to demands for increases in wage and/or utility rates or adjustments in the unit price of "socialized" commodities. In the absence of a more current benchmark I-O table, the 1974 technical coefficients were updated by the RAS method utilizing value added and final demand structures from the national income accounts. Work on the 1979-80 benchmark interindustry tables is currently in progress and scheduled for completion by the end of 1983 as a joint SCO/NCSO activity.

The slowdown in the growth of the Philippine economy, ushered in by the energy crisis and which remained unabated during the early 1980's with the continuing deterioration in the BOP position and in the government's revenue effort, has more than ever focused on the need for timely and reliable indicators of performance in both real and financial transactions of the economy.

It is against this backdrop that the Third Seminar Workshop on the national accounts is being held to look anew into the Philippine system of national accounts, primarily to discuss the adequacy of government financial and balance of payments statistics within the context of a more articulated system of national accounts. While data are limited and quite difficult to obtain for other transactions, substantial information is readily available in respect of government and foreign transactions. There is need to bring these very important planning and policy variables together under one umbrella framework of analysis to reconcile or at least understand differences in concepts, coverage, classification, and methods of recording.

As a starting point, I have endeavored to identify some of the more pressing problems and issues relating to the balance of payments and government financial statistics which this Seminar could address itself to in effecting a more meaningful link between these and the system of national accounts.

II. PROBLEMS AND ISSUES

1. *Need for Proper Classification and Details in BOP Entries*

The Balance of Payments contains a wealth of information on the transactions of the economy with the rest of the world which, properly detailed and categorized, could provide valuable inputs into

the system of national accounts. Firstly, the external transactions account in the national income accounts is compiled largely from the receipts and disbursement entries in the BOP. Secondly, detailed information on flows, particularly from exports of nonfactor services, could provide cross-checks on the corresponding domestic production activities which gave rise to such receipts, e.g., overseas construction activities, management or technical consultancy services, and related activities where available data are rather scanty and/or deficient.

Proper classification of such types of activities is necessary in order to determine how such transactions will be treated in the Philippine system of national accounts.

Production of goods and services within the domestic economy generates income which accrues to the owners of the factors of production. Thus, GNP is derived from the former, GDP, by taking into account the inward and outward flows of factor incomes. The link between the production and expenditure sides of the accounts, on the other hand, is established by considering that whatever was produced, supplemented by imports, is either consumed, invested, or exported.

Thus, receipts classified as exports of nonfactor services will necessarily imply that such were derived from domestic production activities; otherwise, such invisible receipts could only be properly categorized as factor flows from the rest of the world.

Overseas construction activities

One could very conveniently consider overseas construction activities as being undertaken by a branch or subsidiary of the domestic construction firm which realizes a net income, part of which is remitted to the mother company in the form of investment income. This approach would adequately jibe with the treatment of this particular activity from the standpoint of the country where this is taking place, i.e., that the activity contributes to both the GDP and the GDCF of the contracting country.

The alternative approach of treating a construction activity in a foreign country as part of our domestic production which is exported as a nonfactor service is more difficult to understand and reconcile from the viewpoint of production boundary aside from posing considerable difficulties in properly reflecting the various component transactions in both the BOP and in our production

account unless necessary details are available.

If the information supplied by our informant that the BOP entry represents the contract amount of overseas construction were true, then the amount involved should be confined to the provision of management, technical, and possibly labor services, exclusive of inputs provided by the contracting country. Construction materials supplied from the Philippines could not be part of the contract amount inasmuch as shipment of those would already be reflected in the country's merchandise exports.

A more serious implication of treating overseas construction activities as part of domestic production is the fear that unless prompted by BOP entries or the actual monitoring of these construction firms, such contributions to the GDP could easily be missed.

The need to extract such details from the BOP certainly becomes rather urgent for the proper handling of these transactions both from the viewpoint of the BOP and national income estimation.

Commission and fees

As in overseas construction, there is need to determine the exact nature and details of the transactions generating receipts from commissions and fees, primarily for the proper classification of these entries either as export of nonfactor services or as a pure factor income flow. Similarly, details on such transactions could help considerably in effecting improvements in the estimation of the gross output and value added from indentors, management and technical consultancy services, and related business services.

Rental of U.S. bases

This entry is the BOP lumped under "receipts from governments of the ROW" poses a ticklish question which has technical as well as political implications.

The issue is whether the Philippine Government is engaged in a domestic production activity (properly classified under real estate), the output of which in its entirety is exported as a nonfactor service, or still following the official pronouncement that such receipts represent rental payments for the use of American bases in the country. This "rental" income is more appropriately classified as a property income and is therefore a factor flow.

Finally, one can simply dismiss this item as a grant-in-aid which represents a transfer from the U.S. to the Philippines.

2. *Recording of Government Transactions*

The income and expenditure items in the national accounts are based on the transactions finalized within the accounting period. This means that income earned within the period is recorded as such even if actual receipt of payments has not taken place. Similarly, expenditures are accounted for at the time these are obligated even when payments have not been made.

If the production side of the accounts, that is, income generated from domestic production activities, is to be consistent with final expenditures on goods and services produced within the same time frame, flows on both sides of the accounts should both be measured on an accrual basis.

However, because of the differing concerns of various government agencies in recording their transactions, there is considerable difficulty in establishing consistency in government financial statistics. Invariably, the mode of recording takes on either the accrual/obligation or cash flow basis. While the need for recording transactions on the adopted basis has been well established in accordance with their individual agency requirements, considerable gains could be achieved by moving towards reconciliation.

The move towards reconciliation starts with the need to understand the underlying concepts and recording basis for each transaction. This should then be followed by providing the relevant details that could explain the discrepancies resulting from differences in recording bases. For example, government revenues are monitored on the basis of actual collections. Such data, however, become more meaningful from the point of view of both the producer and the users if the series are supplemented by information on how much should have accrued to the reference year and how much for the previous period(s). Obviously, the set of information could provide valuable inputs not only in assessing the collection performance for the year but more so as basis for formulating the necessary short and medium-term policy guidelines for improving the overall revenue effort of the government.

3. *Estimates of Fixed Assets Formation*

Differences in the valuation of government expenditures,

likewise, pose considerable difficulties in reconciling estimates of government expenditures on fixed assets.

In the national accounts, "the acquisition of fixed assets by purchasers should in principle be recorded in their capital accounts at the moment they take legal possession of the items in question. However, in the case of construction on order such as buildings, roads, dams and other works, the buyers are considered to take possession of any work which has been put in place on the project." This is consistent with the concept and treatment in the production side of the national income accounts of including the value of work in progress as part of output.

In the Philippine system of national accounts, the value of construction of the government is based on the data on obligations incurred as reported by the Commission on Audit (COA) with a time lag of one to two years. Preliminary estimates prior to the availability of the audited reports are derived from budget statements coming from the Office of the Budget and Management (OBM) covering programmed capital expenditures and cash disbursement ceilings (CDC's), supplemented by physical accomplishment reports on major development projects prepared quarterly by the NEDA Project Monitoring Staff (PMS).

In support of the data requirements of the COA and the PMS with respect to ongoing construction activities, every government agency prepares two types of reports, viz., a report on the physical status of ongoing projects along with expenditures incurred usually prepared by the project management unit, and an accounting report (trial balance) presumably for submission to the COA.

Within the context of the UNSNA, it appears that the project management type of reporting, as monitored by NEDA-PMS, appears to be the most appropriate basic data source which could be tapped for estimates of government construction. What is needed is to expand the coverage of the PMS monitoring system to cover all ongoing projects of government corporations and national and local governments.

While much could be said about the merits of the continued adoption of COA and OBM data for estimates of current and capital expenditures of the government, there is certainly need for additional information or breakdowns which could provide the link between the real and financial aspects of fixed assets formation.

4. *Linking Financial Investments with Capital Formation*

The nature and extent of government participation in the national housing program needs amplification to arrive at a more appropriate allocation of total residential construction between the government and the private sector. The basic issue involves the determination of ownership with respect to housing units set up under the BLISS Housing Program or joint ventures of government financial institutions with private sector real estate developers or with local governments.

Considerable improvements could be effected in the area of gross domestic capital formation, particularly in private nonresidential construction, if the current system of monitoring financial transactions of government financial institutions and the private banking system could generate additional information, e.g., utilization of loan proceeds, to supplement the inadequate data sources on private fixed capital formation.

A serious deterrent to the compilation of GDCF by industry is the inadequate coverage of the system of establishment enquiries, particularly in respect of initial construction and plant outlays.³ In this connection, it might be worthwhile to set up a system which could monitor these initial investment activities of newly established enterprises. Such an activity is bound to bring about a closer linkage between the registration and licensing of new firms and the building up of the master list of establishments, aside from solving information gaps.

III. CONCLUSIONS

In the course of further improving and articulating the Philippine system of national accounts, the problems and issues which were discussed in this paper confronted the staff. These represented some of the more pressing problems and issues which need clarification and closer scrutiny on a multilateral basis. The workshop provides such a forum which we propose to maintain on a regular basis.

3. The system of establishment enquiries limits coverage to establishments which are actually in operation. Thus, newly established corporations and noncorporate enterprises which have not yet commenced production activities notwithstanding substantial initial real investments as of the last listing operation are not included in the lists which serve as sampling frames for the selection of sample establishments.

Only through such an institutional mechanism could sensitive issues be adequately dealt with, like the limits of confidentiality vis-à-vis detailed information sharing, which could only result in a better understanding of aggregates and of the implications of agency accounting procedures on the macro framework, etc. The flow of information, especially on new developments, will arise as a natural consequence of such a mechanism; and considering that this information is often associated with policy actions by government, the work of monitoring and program coordination is easily facilitated.

While statistical improvement activities have yet to be assigned a higher priority in the allocation of resources, a program of action can be formulated initially towards the improvement in the methodology and articulation of existing accounts. This could be implemented by pooling our expertise and resources to the extent that our individual agency priorities are subsequently extended to other areas of common concern.