

Chapter I

Coverage

Introduction: Sectorization of the Economy

Though government finance statistics are concerned primarily with one part of the economy, it is useful to consider how the overall economy is divided into parts and how the government fits into this structure.

National accounts divide the economy in two ways. For analysis of production and technoeconomic relations, activities group together production units—usually establishments—of homogeneous production regardless of the institutions in which they are found.¹ To bring out behavioral relations pertaining to income, expenditure, and financial flows, transactors are divided into decision-making institutions—like enterprises—grouped by the pursuit of similar purposes and behavioral patterns into sectors. It is mainly with decision-making groupings, or sectors, that this Manual is concerned as it is generally by decision-making hierarchies rather than homogeneous production units that governments are organized and government finance statistics are available.

National accounts (SNA) divide the economy into five sectors in addition to the rest of the world: (1) nonfinancial corporate and quasi-corporate enterprises; (2) financial institutions; (3) general government; (4) private nonprofit institutions serving households; and (5) households. Each of these sectors performs a principal function. Thus, nonfinancial enterprises produce goods and nonfinancial services; financial institutions collect funds from liabilities incurred and convert and distribute them to finance the activities of others; nonprofit institutions utilize voluntary contributions to produce nonmarket services for particular groups of households; households consume and, sometimes, as noncorporate entrepreneurs, also produce nonfinancial market goods and services. The rest of the world, performing no single principal function, groups together nonresident units carrying out transactions with residents of the economy. The principal function of general government, in this framework, is to carry out public policy through the production of nonmarket goods and services for primarily collective consumption and the transfer of income, financed mainly by compulsory levies on other sectors.

The activities of each of these national accounts sectors are reflected in three main sets of accounts showing (1) production; (2) income and outlay; and (3) capital finance (accumulation). A summary of the sectors and their accounts is presented in Chart 1, in which the sectors are arrayed horizontally and the three accounts vertically. The diagram's vertical dimension—the arrangement of accounts and transactions—is paralleled by the discussion in Chapters III and IV of this Manual of an analytical framework for government finance statistics and the classification within it of government transactions. Chapter V shows how the Manual's classifications of transactions can be utilized to derive those of the national accounts.

The horizontal dimension of Chart 1—the distinction between sectors—is discussed in this chapter, which describes the nature, purposes, and characteristics of government so that users may draw the appropriate borders around general government as a whole and around its component subsectors and parts.

It must be noted that in addition to the sectorization of the economy according to purpose, outlined above, institutions and their activities may also be divided along the lines of who owns and

¹In the United Nations' *International Standard Industrial Classification of all Economic Activities* (ISIC), production units are classified according to their major kind of economic activities, based mainly on the principal class of goods produced or services rendered. Activities by government fall into either the governmental category of public administration and defense or into several other categories embracing activities undertaken by both governmental and private units, such as education. The goods and services produced by each activity are further classified by the United Nations in *International Standard Classification of Goods and Services* (ICGS), which is related to, but not identical with, the United Nations' classification of goods entering international trade, the *Standard International Trade Classification* (SITC).

Chart 1. Principal Accounts and Institutional Sectors in the United Nations System of National Accounts

	Industries (including establishments run by governments and private services)	Producers of Government Services	Private Services		Transactions with Rest of the World
			Private Nonprofit Institutions	Households	
	PRODUCTION ACCOUNT				Current
Gross Output	Characteristic products of industrial activity Own account capital formation Other products	Services produced for own use Noncommodity sales Commodities produced		Domestic services	Exports of goods and services
Gross Input	Intermediate consumption Compensation of employees Consumption of fixed capital Indirect taxes less subsidies <i>Operating surplus</i>	Intermediate consumption Compensation of employees Consumption of fixed capital Indirect taxes		Compensation of employees	Imports of goods and services
	Nonfinancial Enterprises	Financial Institutions	General Government	Private Nonprofit Institutions	Households
	INCOME AND OUTLAY ACCOUNT				
Receipts	<i>Operating surplus</i> Property income Other receipts	<i>Operating surplus</i> Property income Direct taxes Indirect taxes Other receipts		Compensation of employees <i>Operating surplus</i> Property income Other receipts	Property income Other current transfers
Disbursements	Property income Direct taxes Other payments <i>Saving</i>	Final consumption expenditure Property income Transfers Other payments <i>Saving</i>		Final consumption expenditure Property income Direct taxes Other payments <i>Saving</i>	Property income Other current transfers <i>Surplus on current transactions</i>
	CAPITAL FINANCE ACCOUNT				Capital
Finance of Gross Accumulation		<i>Saving</i> Consumption of fixed capital Capital transfers (net)			<i>Surplus on current transactions</i> Capital transfers (net)
Gross Accumulation		Increase in stocks Gross fixed capital formation Purchase of land and intangible assets (net) <i>Net lending</i>			Purchase of intangible assets (net)
Net Incurrence of Liabilities Plus Net Lending		<i>Net lending</i> Currency issued Deposits	Short-term borrowing Long-term borrowing Other liabilities		Short-term borrowing Long-term borrowing Other liabilities
Net Acquisition of Financial Assets	Foreign assets	International reserves Other foreign assets	Foreign assets	Foreign assets	Foreign assets
			Short-term domestic loans Long-term domestic loans Other domestic assets		

controls them. Enterprises and financial institutions may thus be divided between those which are owned and/or controlled by government and those which are not. Those which are owned and/or controlled by government are called nonfinancial public enterprises and public financial institutions and are grouped with general government in what the SNA refers to as the public sector. A principal effect of government operations, however, is the financing the government requires from the financial sector, including the public financial institutions, such as the central bank. There are disadvantages, therefore, in consolidating government and public financial institutions in an overall public sector, as this would imply eliminating from the statistics government transactions with public financial institutions. The consolidation in this Manual, therefore, is carried out only with nonfinancial public enterprises—which are discussed in Sections I.I and VI.A—to form a useful grouping called the nonfinancial public sector, discussed in Sections I.K and VI.B. Public financial institutions are considered here to be more appropriately analyzed as a part of the financial sector. In the compilation of data for government subsectors and nonfinancial public enterprises, however, the Manual follows the “building block” approach permitting subsequent combination of data for any collection of parts the analyst finds appropriate.

I.A. Nature of Government

The choice of which activities and institutions are to be counted as a part of government is based on their nature and whether they fall within the definition of government. The government of a country consists of the public authorities and their instrumentalities, established through political processes, exercising a monopoly of compulsory powers within a territorial area or its parts, motivated by considerations of public purposes in the economic, social, and political spheres and engaged primarily in the provision of public services differing in character, cost elements, and source of finance from the activities of other sectors.

The principal function of government, as indicated above, is to carry out public policy through the production of nonmarket services primarily for collective consumption and the transfer income, financed mainly by compulsory levies on units in other sectors. Thus government performs primarily the functions of supplying certain public goods and services and fulfilling certain public purposes not for commercial or financial reasons, or, if of a commercial or financial nature, not on a major basis or not primarily for a profit.

In addition to its principal function, however, government may at times perform minor, subsidiary functions in pursuit of its policy objectives. The need to also portray statistically these subsidiary activities poses problems in drawing the borders between the general government sector and other sectors of the economy which may at times be performing somewhat similar functions. These borderline problem areas appear with varying importance with respect to most other sectors. An attempt to summarize them diagrammatically is made in Chart 2, which seeks to distinguish activities falling within the general government sector, on the right, from those which fall within other sectors. Though distinctions between government and other sectors are discussed in greater detail in the remaining portions of this chapter, it may be useful to discuss them all in turn briefly at this point.

The need to distinguish between the general government sector and the nonfinancial corporate and quasi-corporate enterprise sector arises with regard to any industrial or commercial activity carried out by government. When sales of commercial or industrial goods and services to the rest of the economy by a government-owned and/or controlled unit are large, or the unit is a corporate enterprise, the activity is considered to fall within the nonfinancial enterprise sector. When sales of goods and services are made by a noncorporate unit to other parts of the government—and are therefore ancillary in nature—or to the rest of the economy but on only a small scale, the activity falls within the general government sector. Provision to the rest of the economy, for a fee, of goods and services that are regulatory in nature—for example, passports, court fees—or incidental to the performance of other governmental functions—for example, museum postcards or seeds from experimental farms—is also a part of the general government sector. Essentially therefore, all trading or industrial activities carried out by government other than by noncorporate units for other parts of the government itself or on only a small scale are considered to take place outside of government in the realm of nonfinancial public enterprises. This distinction is examined in greater detail in Sections I.H and I.I below.

Chart 2. Criteria Determining the Borderline Between the General Government Sector and Other Sectors

Other Sectors			General Government Sector		
Nonfinancial corporate and quasi-corporate enterprise sector	Private Enterprise	Public Enterprise	Departmental Enterprise	Sale of goods and services regulatory in nature (passports)	Sales incidental to other government functions (museum postcards)
	No majority ownership or control by government	Majority owned and/or controlled by government and selling goods and services to the public on a large scale or incorporated			
Financial institutions sector	Monetary Authorities Subsector	All	None		
	Deposit Money Banks Subsector	All bodies accepting demand deposits, including demand deposit liabilities accepted by government	None		
	Insurance Companies and Pension Funds Subsector	All except social security schemes and pension funds invested entirely with employer	Social Security Schemes	Government employee pension funds invested entirely with the employing government	
	Other Financial Institutions Subsector	Bodies with the authority to choose the form of assets and liabilities or accepting time or savings deposits	Lending bodies with only government funds. Savings bodies with liabilities other than time or savings deposits and proceeds automatically channeled to government		
Private nonprofit institutions serving households sector	Nonprofit institutions not both mainly financed and effectively controlled by government.		Nonprofit institutions mainly financed and effectively controlled by government		
Rest of the world	International organizations not collecting taxes in the country	Transactions of supranational authorities collecting taxes in the country	Transit account counterpart for transactions of supranational authorities collecting taxes in the country		

Because government dealings with financial institutions play a key role in fiscal policy, it is of great importance to distinguish clearly between the two sectors. Essentially this distinction rests on the principle that the functions of the financial institutions sector are not carried out within the government sector. The distinction between the general government sector and the financial institutions sector can more clearly be drawn with respect to each subsector of financial institutions (Section I.J). The monetary authorities subsector is concerned with managing a country's international reserves and influencing the money supply and the remainder of the monetary and financial system. In most countries these functions have been vested mainly in the central bank, which is the principal component of the monetary authorities subsector. In some countries, however, the central government has retained some of the functions of a monetary authority and continues to carry out some transactions of this nature. In this Manual, all monetary authorities' functions irrespective of which institutions carry them out are regarded as activities of the monetary authorities subsector and not of the government sector. When government accounts include transactions for the performance of monetary authorities' functions, adjustments must be made to eliminate them in the preparation of government finance statistics and show only the net flow to and from government resulting from these activities. These adjustments are described in Sections II.J and II.J.1 below. This treatment differs from that in the SNA, which assigns to the general government sector those monetary authorities' functions it performs.²

A similar distinction applies to the deposit money banks subsector, which includes institutions with liabilities largely in the form of money held by the community. All such activities, including postal checking systems, are considered by this Manual to be outside the general government sector and require appropriate adjustments if shown in government accounts (Section II.J).

The subsector for insurance companies and pension funds is distinguished on several grounds from activities in the general government sector (Section I.F). Social security schemes, which form a part of general government, involve compulsory contributions by employees and/or employers in either the entire community or large sections of the community and are imposed and controlled by government. Pension funds on the other hand may be voluntary, confined to particular industries, unions, or employers, and may result from negotiations rather than government decision. However, government employee pension funds which are entirely invested with the employing government are a part of the general government sector rather than the pension subsector. Other insurance and pension fund activities, whether owned and controlled privately or by the government, are not a part of the general government sector.

The subsector of other financial institutions, which excludes insurance companies and pension funds, includes bodies that either accept time and savings deposits, or are authorized to both incur financial liabilities to the community which do not constitute money and acquire financial claims in the market. This Manual includes within government only lending bodies whose funds come solely from government and savings bodies whose funds flow automatically to government and whose liabilities to the community are in forms other than time or savings deposits. Government would thus embrace housing loan funds drawing their money from government alone, for example, and savings bond programs issuing bonds and automatically turning all of their receipts over to government. Bodies like development banks, on the other hand, which may enter into liabilities other than with government, are a part of the other financial institutions subsector. So are post office savings banks and the savings deposit functions of some treasuries, which take on quasi-money liabilities to the public though their proceeds may flow automatically to the government.

This Manual differs somewhat from the SNA in the sectorization of financial institution functions. While both the Manual and the SNA exclude from the government sector all units primarily engaged in both incurring liabilities and acquiring financial assets in the market, the Manual excludes from government also other units' acceptance of demand, time, or savings deposits and performance of monetary authorities' functions.

Private nonprofit institutions serving households are distinguished from general government primarily on the basis of financing and control. Nonprofit bodies included within general govern-

²All functions of the monetary authorities are grouped together, however, in the SNA supplementary Table 25 on the financial transactions of the consolidated monetary system.

ment are those which primarily serve households or business units, and are wholly or mainly financed and controlled by public authorities, which may have participated in founding and organizing them. Government financing may take the form of transfers, or of permitting membership fees and payments for services and publications which do not fully cover current costs, while government control may consist of effectively determining the policies, programs and activities, and the detailed standards of operations of such bodies. Nonprofit institutions which draw mainly upon private voluntary contributions and are not subject to such governmental control fall into the private nonprofit institutions sector. Hospitals, universities, and welfare bodies are typical institutions for which these questions may arise.

In some countries various activities are carried out by units organized as cooperatives with ownership and control in the hands of participating producers, consumers, or other groups. When such units' activities are primarily industrial or commercial in nature, they are classified as nonfinancial private enterprises. When their activities are primarily financial in nature, as in the case of credit cooperatives, they are classified as private financial institutions. When such units are mainly noncommercial and nonfinancial in character and are engaged in the provision of nonmarket services to households financed primarily by voluntary contributions, such as charitable donations, they are classified as private nonprofit institutions serving households. Designation as a cooperative may not in all cases indicate that members hold majority ownership, financing, and control, however. When majority ownership and/or control of commercial or financial cooperatives are in fact in the hands of government, these units should be classified as nonfinancial public enterprises or public financial institutions, respectively. When noncommercial, nonfinancial cooperatives providing nonmarket services to households are mainly financed and controlled by government, they are classified within the government sector.

The need to distinguish general government not only from other sectors of the economy but also from the rest of the world arises from the decisions of several countries in recent years to assign some of their governmental functions to supranational authorities—such as the European Community—which raise taxes in a country though they are nonresident. Other international organizations which are not financed directly from taxes but by contributions or subscriptions from governments or loans do not fall into this supranational authorities category. For balance of payments purposes, taxes collected for nonresident supranational authorities and funds received from them for expenditure in the country are viewed as transactions with the rest of the world. Without inclusion of these taxes and expenditures, however, the total weight of taxes collected and governmental expenditures made within a country would be understated. To count such transactions, therefore, all payments to and from supranational authorities are considered to pass through a separate transit account in general government called the supranational authorities subsector (Section I.G). In reaching totals for the economy as a whole, caution is necessary so as not to double count such transactions appearing both in the government sector and for the rest of the world. This task is facilitated, however, by the segregation of all such transactions in the supranational authorities subsector, a building block that can be counted with the rest of general government for some purposes and not for others. Government without the supranational authorities subsector is referred to as national government and with it as domestic government. Where there is no supranational authorities subsector the two are of course the same.

Government is thus defined as embracing (1) the primarily noncommercial functions of its various parts, agencies, and instrumentalities; (2) social security arrangements for large sections of the community imposed, controlled, or financed by the government; (3) pension funds of government employees whose reserves are invested entirely with the employing government; (4) a limited range of industrial or commercial activities carried out by noncorporate units and encompassing ancillary functions, that is, meeting internal government needs, or selling to the public only on a small scale; (5) a limited range of financial bodies comprising lending bodies deriving all their funds from government and savings bodies automatically channeling to government the proceeds of liabilities to the public in forms other than time or savings deposits; (6) other nonprofit institutions serving households or business enterprises which are wholly, or mainly, financed and controlled by the public authorities or which primarily serve government bodies; and (7) the domestic operations of any supranational authorities empowered to levy taxes in the territory of more than one country.

It is because of the nature of their operation, it must be stressed, that units carrying out these

functions are a part of government and not because of their treatment in particular government budgetary or administrative accounts. As budgetary and accounting practices serve many different legal, political, and administrative purposes, they cannot be taken as a guide to the inclusion of particular activities in government or their assignment to some other sector. Whether they are budgetary, extrabudgetary, the subject of special funds, special accounts, advance accounts, or any other institutional or accounting arrangement, government units must meet the same basic criteria for inclusion in government.

I.B. General Government

The combination of all government units operating in a country is called *general government*. Making up the general government sector are a number of subsectors: (1) central government; (2) state, provincial, or regional governments, when they exist within a country; (3) local governments including municipalities, school boards, etc.; and (4) any supranational authorities exercising taxation and governmental expenditure functions within the national territory.

Like other functions of government, social security operations are classified by this Manual as a part of the level of government at which they operate. This differs somewhat from the SNA, which separates out those social security schemes “which are separately organized from the other activities of the public authorities and hold their assets and liabilities separate from them” (SNA, p. 237), refers to them as social security funds, and classifies them in a social security subsector separate from central, state, or local government. The SNA classifies other social security schemes with the level of government at which they operate. To facilitate analysis of social security funds and construction of national accounts, separate statistics covering social security fund operations may be provided within the statistics for each level of government.

While the relative size of different levels of government—central, state, and local—varies from country to country, an equally significant element is the extent of the powers and functions carried out by local and, particularly, state or regional governments. Where federal constitutions, as distinct from unitary constitutions, apply, and where substantial decisions are taken at regional or local levels on expenditure allocation and sources of finance, greater importance is likely to be assigned to collection of separate statistics for levels of government outside the central government. Separate data for each level of government are essential in all countries, however, to an understanding of the interplay between levels of government, the division of functions and revenues among them, and the intergovernmental transfer of funds upon which many systems rest.

Overall statistics for general government are important for a number of analytical purposes. Only statistics for general government can show the overall magnitude of government operations in a country, the allocation of resources through government for various purposes, the aggregate weight of taxes, and the structure of the tax system. Other analytical needs are served through separate statistics for central government. These would show the impact of fiscal policy under direct central control, the operation of that part of the government which, because of the usually more ready access to central bank credit, has essentially no domestic liquidity problems and has the most immediate effect on monetary developments. Central government statistics, however, do not provide an adequate basis for measuring the overall government effect on the economy over time or in comparison with other countries because of the varying importance of operations at other levels of government.

Because its coverage is so wide, general government often presents problems in obtaining data that are both complete and reasonably current. Analyses may have to proceed with coverage of those parts of general government for which data are available, therefore, while efforts go forward in central government ministries or in statistical offices to organize the collection of adequate statistics for other parts of general government. Data for the available portion of general government may be referred to as “available general government” and utilized for interim purposes in much the same manner as partial data for central government described in Section I.C.1 below.

The remaining portions of this chapter deal in turn with various subsectors of general government—central, state, local, and supranational authorities—social security schemes, other components in and out of general government whose delineation raises particular questions—departmental enterprises, nonfinancial public enterprises, and financial institutions—and, finally, with the concept of the nonfinancial public sector.

I.C. Central Government

The central government is defined to include all governmental departments, offices, establishments, and other bodies which are agencies or instruments of the central authority of a country. Also included within central government are departmental enterprises attached thereto, relevant non-profit institutions, and the geographical extension of central government authority which may operate at the regional or local level without the attributes necessary for existence as a separate government, as discussed below.

The compilation of a current time series for central government is of particular importance because of the special role it plays in monetary and economic analysis. It is mainly through central government finances that fiscal policy operates on inflationary or deflationary pressures within the economy. It is generally at the central government level alone that a decision-making body can formulate and carry out policies directed toward nationwide economic objectives. Other levels of government do not have as their objective national economic policies and the central government's ultimate access to central bank credit may enable it to act without the financial constraints and domestic liquidity problems that limit most state and local governments.

Like units carrying out other functions of government, social security schemes operating at the national level are included by this Manual as a part of central government. Though some social security schemes may be separately organized and administered while others are an integral part of central government operations, all are by their nature a matter of government policy and concern, increasingly interrelated with other central government programs and involved in the pursuit of countercyclical fiscal policies.

Social security schemes operating at the regional and local levels are included in those levels of government. This differs from the SNA which treats separately organized and administered social security schemes as a separate social security funds subsector. To facilitate analysis of social security funds as a whole, separate statistics for them may be provided within the statistics for each level of government.

The form that administration or accounting for a function or entity takes—whether budgetary, extrabudgetary, special account, etc.—should not affect its inclusion within statistics for central government. The nature of the function and the derivation of authority constitute the more proper criteria.

In some countries considerable portions of government operations are carried out by *decentralized agencies*. These are administrative establishments operating under the authority of central, state, or local governments, with some degree of independent legal status and responsibility for the performance of specialized governmental functions in such fields as health, education, social welfare, construction, planning, communications, etc. They are to be distinguished from public enterprises, which are industrial or commercial in nature and are either corporate in character or sell goods and services to the public on a large scale.

Decentralized agencies may operate with separate budgeting and accounting procedures and may be financed by their own fees and charges, earmarked tax revenues, or transfers from the budget or treasury. There is no subsector separate from central, state, or local governments to which decentralized agencies can be assigned and it is important to include data for their operations with the government whose functions they perform. When decentralized agencies collect their own revenues, their omission from data for government may seriously understate the magnitude and movement of government revenue and expenditure. When they operate with funds received from the rest of the government, their omission can distort the timing of actual expenditure of these funds and their effect on the rest of the economy. Decentralized agencies jointly operated by more than one level of government should be shown with the statistics of that level of government which predominates in financing or administering their operations.

The degree of authority and accountability of decentralized agencies, entities, or establishments may vary considerably from country to country, over time, and among agencies. This may sometimes result in limited availability of current data for some agencies, rendering quite difficult the full and prompt inclusion of their activities in the statistics for central government. One cannot lightly consider the omission of decentralized agency operations in statistics for central government, however, as this may seriously limit the statistical portrayal of central government operations.

I.C.1. "Available Central Government"

An intermediate solution to this problem of unavailable current data may be envisaged, however. In the absence of full current data on some parts of central government, partial data may be combined in a consistent time series to portray "available central government." This would be supplemented by data for the rest of central government operations—e.g., particular budgetary accounts, extrabudgetary accounts, decentralized agencies, or social security funds—when they can be obtained, to make up the statistics for full central government.

Statistics for "available central government" may serve as either a current partial indicator of central government activity until data for full coverage become available or as a time series for periods of greater frequency, such as months or quarters, when data for all of central government are available on an annual basis only. In some circumstances data representing "available central government" may of necessity constitute the prime operational statistics for current analysis of government. Such statistics will continue to have serious drawbacks, however, as regards comparability between countries and often also consistency over time. If possible, they should not be accepted as the sole series for central government.

In the compilation of partial current statistics for "available central government" it is important to define their relationship to the more complete coverage and adjustment procedures of the data for total central government. This can best be accomplished through the use of derivation tables and procedures described in Section II.L. By explicitly detailing the coverage, adjustments, and consolidation procedures followed in compilation of data for "available central government," their subsequent conversion to the more complete time series can be systematically carried out.

Series similar to "available central government" may be utilized as interim measures for "available general government" and, given the difficulties of compiling data for other levels of government in some countries, for "available state governments" and "available local governments" as well.

I.D. State, Provincial, or Regional Government

State, provincial, or regional governments are governmental units exercising a competence independently of central government in a part of a country's territory encompassing a number of smaller localities. These governments, therefore, occupy an intermediate position between the central government and independent local governments that may exist.

Separate regional governments do not exist in all countries. They exist in countries with federal arrangements under which financial powers and responsibilities are shared between central and regional authorities. They exist also in countries in which the central government has bestowed a degree of operating independence, responsibility, and control upon regional authorities. Indeed in some nonfederal countries the operations of regional and local governments together may be greater in magnitude than those of the central government. In other countries, however, there may be no governmental functions carried out at the regional level or these functions may be exercised through direct central government appointment, operation, and control.

It is necessary in each country, therefore, to ascertain whether separate regional governments may be considered to exist. Where such separate governments do not exist, any performance of governmental functions at the regional level should be attributed to the government which in fact controls them and included in its financial statistics. When separate regional governments are found to exist, however, statistics on their operation can provide an important insight into the structure and dynamics of government.

In the collection and presentation of statistics for regional governments, it is necessary to include also the data covering the activities of these governments' departmental enterprises, decentralized agencies, dependent entities or instrumentalities, along with the pension funds of regional government employees whose assets are invested entirely with the employer government. Included as a part of regional governments would be the activities of social security schemes operating at the regional level such as state or regional unemployment schemes. This does not refer to regional operation or regional branch offices of national social security schemes. Agencies dealing with such functions as education, health care, culture, and leisure activities would be classified as part of state

governments when they are mainly financed and controlled by them. Decentralized agencies serving several regions would be included in statistics for regional governments while those serving both regional and local governments would be incorporated in that level of government which predominates in their operations and finance.

Where government functions carried out at the local level—as discussed in the next section—lack substantial autonomy and are controlled not by the central government but by the regional government, their activities too would be included in the statistics for regional government.

A central issue in the separate reporting of statistics for both regional and local governments, therefore, is whether they may be judged to have a separate existence, that is whether they have sufficient discretion in the management of their own affairs to distinguish them as separate from the administrative structure of another government.

A government may be considered to have substantial autonomy when it has the power to raise a substantial portion of its revenue from sources it controls and its officers are independent of external administrative control in the actual operation of the unit's activities.

Governments may be deemed to be dependent agencies of some broader governmental unit where:

(1) They depend for all or a substantial portion of their revenue on appropriations or allocations made at the discretion of another government.

(2) They lack their own officers (i.e., are staffed by regular officials of another governmental entity).

(3) They must submit budget estimates to another governmental entity which may in turn raise or lower the submitted estimates. A separate existence is not precluded, however, by review of budgets by agencies of higher levels of government or review of government budgets in connection with administration of tax limitations imposed by another level of government.

(4) Important aspects of their administration are controlled by another governmental entity (e.g., requirements for approval of plans and sites, approval of contracts, supervision of personnel administration, determination of scope and scale of activities, and the like). However, this test does not apply to supervision of government activities by a higher level of government.

Statistics for regional or state governments are to be distinguished from regional or geographical analyses that deal not with the operations of regional government units but with the magnitude of central government operations carried out in different regions of the country.

I.E. Local Government

Local governments consist of governmental units exercising an independent competence in the various urban and/or rural jurisdictions of a country's territory.

When local governmental functions are not carried out separately from the administrative structure of another government, their activities should be included in the statistics for the central or regional governments of which they form a part. The judgment as to whether particular local activities are, in fact, being carried out by separate governments with substantial autonomy should be based on the criteria discussed in Section I.D above.

Statistics for local government may cover a wide variety of governmental units and a diverse group of dependent agencies and activities. Thus, local government units may include counties, municipalities, cities, towns, townships, boroughs, school districts, water or sanitation districts, combinations of contiguous local governments organized for various purposes, etc. As with other levels of government, statistics for local government should include their departmental enterprises, decentralized agencies, dependent entities or instrumentalities, and the pension funds of local government employees whose assets are invested entirely with the employer government. Any social security schemes operating at the local level should be treated as part of local government. This does not refer to the local operations or local offices of national or regional social security schemes.

There should thus be included in local government statistics where applicable:

(1) Educational establishments controlled by local public authorities to which users' fees are small in relation to the main costs borne by the local government

(2) Hospitals and social welfare establishments mainly financed and controlled by the local government (kindergartens and nurseries, welfare homes, etc.)

(3) Public sanitation establishments mainly financed and controlled by local public authorities (water purification systems and plants, refuse collection and disposal, cemeteries and crematoria, slaughterhouses, etc.)

(4) Culture, leisure, and sports facilities provided by local public authorities (theaters, concerts, music halls, museums, art galleries, libraries, parks and open spaces, etc.).³

In all such cases units should be consolidated with that level of government—central, regional, or local—by which they are mainly financed and controlled.

Whether operations of such establishments are to be treated as noncommercial sales or as departmental or public enterprises will depend upon application of the criteria discussed in Sections I.H and I.I below.

I.F. Social Security Schemes

Major portions of most governments' social programs are carried out through social security schemes. The operation of such schemes, like other functions each government performs, is to be included as a part of the statistics for that government.

Social security is defined by SNA as:

Schemes imposed, controlled or financed by the public authorities for purposes of providing social security benefits for the community, or large sections of the community.... Schemes imposed by the government will involve compulsory contributions by employees and/or employers and cover the whole community or particular sections of the community. These arrangements may, in addition, allow certain sections of the community to join the scheme voluntarily (SNA, 5.27 and p. 237).

Social security schemes may cover a variety of programs, providing benefits in cash or in kind for old age, invalidity or death, survivors, sickness and maternity, work injury, unemployment, family allowance, health care, etc. While some schemes provide only cash payments, others are involved in the construction and use of facilities for direct provision of services.

Excluded from social security schemes, however, are savings arrangements, sometimes referred to as provident funds, which maintain the integrity of participants' contributions rather than providing them with social insurance benefits which may not be directly related to their contributions. Under provident fund arrangements, the compulsory contributions of each participant and of his employer on his behalf are kept in a separate account drawing interest and are withdrawable under specified circumstances such as retirement, unemployment, invalidity, and death. Such arrangements cannot provide social insurance for the coverage of risks as this would sacrifice the integrity of individual accounts. They are therefore classified in the financial institutions sector with only their flows to or from government reflected in the statistics for government.

Social security schemes must also be distinguished from pension schemes falling into the insurance companies and pension funds subsector of the financial institutions sector. Pension funds are distinguished on several grounds:

First, the pension fund is to relate to specific groups of employees; and is not to be part of a social security scheme, that is an arrangement ensuring income on retirement etc., for large sections of the community which is imposed, controlled or financed by the public authorities. Some indications of the fact that a pension arrangement is not part of a social security scheme are: the pension scheme is, or has been, the subject of negotiation between employers and employees; the benefits and contributions are not similar; its reserves are managed and invested differently.... Second, the pension scheme should include an independently organized fund which engages in financial transactions in the capital market. The pension scheme is to be classified in the same institutional category as the employer to whose employees the scheme relates, when the funds of the scheme are not segregated from the employer's reserves or when the

³Drawn from the Council of Europe, *Manual on the Statistical System for Functional and Economic Analysis of Standardized European Local Accounts* (SELA), Study for the Committee on Cooperation in Municipal and Regional Matters (Strasbourg, 1973).

funds are clearly separated, but are only invested in the employer's securities (SNA, 5.57).

Government employees may be covered by a general social security scheme, by a separate social security scheme constituting one of several such programs operating in the country, by a pension scheme meeting the criteria for pension funds listed above, by a provident fund, by a government arrangement with a private insurance organization, or by an unfunded employee welfare or retirement system financed by the employing government. Funded government employee pension schemes invested in the capital market or in loans and securities other than those of the employing government form part of the insurance company and pension funds subsector. Government employee pension or retirement funds that are not segregated from the employing government's funds or are invested only in the employing government's securities, however, form part of the employing government and are to be included in statistics on its operations. When a government pension or retirement fund covers also other employees, such as those of local governments, and the fund is invested entirely with the government which operates it, the fund is included in statistics for the operating government.

The treatment of social security schemes as a part of government, rather than as pension funds or insurance companies in the financial institutions sector, rests on several considerations:

(1) In a system of sectors the allocation of institutions to a particular sector has as its basis common incentives and motivations. A compulsory government insurance plan is motivated differently from that of private insurance institutions in that it can neither exclude special high risks nor cancel contracts and it is not based on voluntary contracts. The pattern of financing may therefore be expected to be consistent with the requirements of government finance rather than market and investment considerations.

(2) Generalized social insurance contributions represent a kind of wage tax and generalized benefit payments are practically indistinguishable from other government expenditure for the same purposes. Once the law provides such benefits the government is responsible for their payment, even to the extent of subsidies and special taxes.

(3) Social security has far-reaching social implications (income redistribution, income maintenance, health maintenance, deflation and inflation) and the economic and monetary impact of government would not be completely measured if the social security system were not treated as a part of it.

This Manual calls for the inclusion of statistics for national social security schemes as a part of central government. Schemes that operate separately in each region or locality are included in the statistics for the appropriate regional or local governments. The operation of national social security schemes through regional or local offices, however, does not alter their national character and they should be included in statistics for central government.

This treatment differs from that of SNA, which divides social security schemes into two parts: those "which are separately organized from the other activities of the public authorities and hold their assets and liabilities separately from them" (SNA, p. 237) and those which are carried out as an integral part of a government's operations. The SNA refers to the separately organized schemes as social security funds and classifies them in a social security funds subsector separate from central government or state and local governments. Other social security schemes it classifies with the level of government at which they operate.

This Manual's inclusion of all social security schemes in the statistics for central government, or for other appropriate levels of government, follows the principle applied elsewhere in the Manual calling for classification of activities and transactions by their nature rather than by the particular legal or accounting practice in force. In recent years it has become increasingly evident that the operations of social security schemes are by their nature an integral part of government policies and concerns. Many of the benefits provided through social security funds in some countries and at some periods of time are provided in other cases or for other social security functions without a system of funds or even contributions. Frequent shifts have occurred between the components of old age, health and family allowance schemes which are covered by contributions, supplementary transfers from general revenues of government, or direct provision by government. Previously clear distinctions between programs have been blurred in some countries by the establishment of universal old age benefits supplemented on the one hand by means-test welfare assistance and on the other by

earnings-tied contributory schemes. Numerous health programs have become either universal, or universal below specific income levels, and provision of benefits has sometimes been divided between health fund and government administration along such lines as hospitals versus individual care and medicine.

At the same time, the operation of unemployment compensation and retirement schemes has become central to the conduct of countercyclical fiscal policies. The introduction of indexed retirement benefits in recent years has shifted financing from the accumulation of reserves to dependence on current collections. The concurrence of unemployment and inflation has undermined the financing of indexed retirement benefits from current collections, however, and governments have intervened to finance such benefits from general revenues while implementing other countercyclical objectives—e.g., early retirement, subsidized retention of employees—through social security programs. Omission of social security funds from the statistics for central government, therefore, can fail to portray the full operation of fiscal policy. Indeed to assure a complete presentation of operations by each government or level of government, statistics for all social security schemes, whether social security funds or otherwise, should be included with the level of government at which they operate.

Separate statistics for a social security funds subsector can serve a useful analytical purpose, however, in revealing the surpluses or deficits generated and administered by separate social security institutions and how they are applied. Such data serve to distinguish, for example, purchase of government debt by social security funds. To facilitate compilation of data for a social security funds subsector as a whole it is necessary to identify within each level of government those operations that are carried out by social security funds.

I.G. Supranational Authorities

The supranational authorities subsector of general government encompasses the operations within a country of those bodies which, through the agreement of national governments, have been endowed with the authority to raise taxes or other compulsory contributions, as well as making expenditures and carrying out other activities for the achievement of specified purposes, within the territories of more than one country. To permit a compilation of statistics for all governmental revenues and expenditures in a country where collection of taxes for such nonresident authorities takes place, inclusion of such a supranational authorities subsector in the general government sector is necessary.

For the present, however, few countries are affected by this treatment, most notably members of the European Community. The supranational authorities subsector includes only tax raising organizations. It excludes most international or regional organizations, in which countries have come together to perform in common functions of use to them all, financed by the contributions of their member governments or by loans raised from governments or in capital markets. Government contributions to such international organizations are shown as central government expenditure, loans to them or investments in them as lending, and receipts from them as either grants, loans, or repayments of lending from abroad. Transactions with regional or international monetary organizations, such as the International Monetary Fund (IMF), however, are recorded as transactions of the monetary authorities forming a part of the financial institutions sector and not the general government sector (Section II.J.1). Transactions of enterprises and financial institutions associated with supranational authorities, such as the European Investment Bank, are not included in the supranational authorities subsector.

The supranational authorities subsector differs from the other, national, subsectors of general government because it forms a part of the rest of the world. If taxes raised and expenditures made by supranational authorities are not taken into account, however, the totals of taxes and governmental expenditures in a country would be understated. To count these operations, therefore, supranational authorities' transactions with the country are considered to be channeled through a transit account in general government entitled the supranational authorities subsector. Supranational authority transactions within the country and with the supranational authorities' headquarters are shown in this account. This treatment should yield data that can be consolidated with national government to produce totals for national plus supranational general government, which may be referred to as

domestic general government. Additional care is required in avoiding double counting of items appearing in both the supranational authorities subsector and the rest of the world account when calculating national account totals for the economy as a whole. The collection of supranational authorities' transactions within one subsector, however, should assist in subsequent preparation of more complete national accounts and balance of payments statistics.

Like other parts of the rest of the world, entries for supranational authorities reflect only transactions carried out with the country concerned and not elsewhere. An aggregate of a supranational authority's operations in all its member countries, therefore, would be incomplete insofar as any transactions occur with other countries, such as the extension of aid or loans to nonmember countries, for example. To complete the statistics for any supranational authority a collection of the relevant subsectors in its member countries would have to be supplemented by an additional headquarters subsector showing the authority's other operations as well.

Among the transactions shown for the supranational authorities subsector of general government in member countries there may be included taxes collected within the country, expenditures and lending within the country, transfers to and from the central government of the country, transfers to and from the supranational authorities' headquarters, and any borrowing and changes in holdings of cash balances within the country. Statistics for the supranational authorities subsector would show the difference between the subsector's revenue and grants on the one hand and expenditure and lending on the other as being met, aside from domestic financing, by the net flow to or from the supranational authorities' headquarters, embodying all transactions outside the country. The SNA provision that only indirect taxes and subsidies of supranational authorities are routed through the general government sector (SNA, 8.91) is currently undergoing review.

Questions may arise in distinguishing taxes directly attributable to supranational authorities from those attributable to national governments. While some supranational authorities derive their revenues or make use of their resources only through specific decisions of member countries, others are endowed with more general powers by their basic charters or agreements. They can reach decisions within their own councils regarding revenues, expenditures, lending, and borrowing, or negotiate these matters with individual member countries. Whether the revenues of supranational authorities are to be shown as their taxes or as transfers from member governments which raise the taxes should be determined with reference to the rules of attribution in Section II.G below.

Apart from the compilation of complete and consistent statistics for supranational authorities, questions may arise as to the significance of some general government statistics in which they are included. Thus, revenues collected by or for a supranational authority at a major port of entry to a common market cannot validly be considered as deriving from residents of the country of entry alone. Problems of this sort are similar to those presented by local taxes upon transactions in a country's commercial center. They call for either a broader definition of the geographic area for which taxes are to be aggregated—for example, the economic community as a whole—or some approximation of the share of such taxes derived from other member countries. Questions of incidence and effect, however, are outside the scope of this Manual, which deals only with the statistical presentation of the amounts received and paid out.

I.H. Departmental Enterprises

Though the principal function of government is the provision of nonmarket services for collective consumption, governments are frequently involved also in the sale of goods and services. It must be determined, therefore, whether such sales activities are to be considered a part of the general government sector or of another sector. When industrial or commercial sales to the public are carried out by government-owned and/or government-controlled corporate units or on a large scale, they are considered to be outside government and in the nonfinancial corporate and quasi-corporate enterprise sector, discussed in the next Section, I.I. Commercial or industrial activities which remain inside government are said to be carried out by departmental enterprises—embracing what the SNA refers to as industries within government as distinct from producers of government services—and are discussed in this section. Government-owned and/or government-controlled financial activities are discussed in Section I.J.

Departmental enterprises are industrial or commercial units which are (1) noncorporate,

(2) closely integrated with the rest of a government department or agency, and (3) likely to hold small working balances and which are either (4a) mainly engaged in supplying goods and services to the other units of government (as ancillary units) or (4b) mainly selling goods and services to the public but operating on a small scale.

To be classified as departmental enterprises, government units must meet the SNA criteria for industries, that is they must be

establishments the activities of which are financed by producing goods and services for sale in the market at a price that is normally designed to cover the costs of production. . . [or] which produce similar goods and services and utilize similar inputs and production processes, though they may not be run to make a profit and may not dispose of their output in the market (SNA, 5.7, 5.8).

Government industries, therefore,

should encompass government departments, establishments and similar units mainly engaged in selling the kinds of goods and services which are often produced by business establishments, though as a matter of policy, the prices (charges) set for these goods and services may not approximate the full costs of production. So as to qualify as sales in this context, the charges should be proportional to the amount (i.e. quantity and quality) of the goods and services furnished; and the decision to acquire (i.e. purchase) the goods and services should be voluntary. . . . Governmental departments engaged in the usual social or community activities of government, for example, national parks, health, educational, cultural and sanitary services, and scientific or technical research and assistance, should not be considered public industries unless the fees set for these services are clearly designed to approximate the full costs of production (SNA, 5.10, 5.11).

To be classified as departmental enterprises inside government—and not as public enterprises outside government—government units must be not only industries, but noncorporate and either mainly engaged in supplying goods and services to other units of government—in which case they are called ancillary—or mainly selling goods and services to the public but on a small scale. Corporate enterprises are defined by the SNA as those

which by virtue of legislation, administrative regulations or registration, are recognized as business entities independent of their owners (SNA, p. 231).

In the classification of noncorporate units mainly selling goods and services to the public, the criterion of scale is intended not as an absolute magnitude applicable uniformly everywhere, but as an indication of significant proportions relative to the circumstances. Unincorporated units mainly selling goods and services to the public on a large scale are classified as quasi-corporate nonfinancial enterprises, outside government.

Examples of ancillary-type departmental enterprises are munitions factories, repair shops, navy dockyards, printing and publishing services for government, construction, repair and maintenance units, central transport pools, and business management services. It should be noted that such units may also have sales outside government, such as munitions sales abroad. Examples of departmental enterprises mainly selling goods and services to the public but on a small scale are government restaurant services in public buildings, local small-scale bus services, inland water docking facilities, and rental of dwellings to government employees.

Departmental enterprises are treated as a part of the general government sector and of whichever of its subsectors they are attached to. The receipts and expenditures of departmental enterprises, however, are treated differently from those of the rest of government. Because they are engaged in commercial or industrial activities, departmental enterprises collect sales proceeds only by incurring corresponding production costs. Their sales proceeds, consequently, do not constitute disposable income for government, as most other revenues do, and their expenditures do not in their entirety represent outlays for the fulfillment of government purposes. It is only the difference between sales proceeds and operating costs which contributes to government disposable income or to expenditures for government purposes. When the operating costs and proceeds of sales to the public are identifiable, therefore, it is the difference between them which is reflected in the statistics for

government. As departmental enterprises are likely to hold small working balances and to be highly integrated financially with the public authorities, all provisions for their nonoperating costs, such as interest, and capital needs are assumed to be completely integrated with the rest of the government in which they operate and are shown in full in the statistics for government.

In the case of ancillary departmental enterprises, engaged primarily in supplying goods and services to other units of government, sales to the public are shown on a net basis only when both the proceeds and costs of such sales can be separately identified. When sales to the public and their costs cannot be so identified, both expenditures and receipts of the ancillary departmental enterprises vis-à-vis the rest of the economy are shown on a gross basis.

Because of the net treatment afforded to the identifiable operating costs and proceeds of departmental enterprises' sales to the public, it is important to distinguish them from government sales of goods and services to the public which are considered to be nonindustrial in character. These are generally of three kinds.

(1) Some fees or charges are collected for government services not considered to be of an industrial or commercial nature, encompassing fees at government hospitals and clinics, tuition fees at government schools, admission fees to government museums and parks, etc. These may be carried out by government departments or by government nonprofit institutions, that is, such institutions that are primarily financed and controlled by government. In either case both the fees and the expenditures would be shown on a gross basis in the statistics for the subsector of government concerned.

(2) Treated outside the category of industry also is the provision of government services of a regulatory character, for example, issuing passports or licenses and administering driving tests or courts, even though payments collected may cover the full current costs of operating the agencies. These payments are compulsory and unavoidable in the only circumstances in which they are useful and are not considered to be purchases of industrial services or goods. Their receipts are shown gross in government revenues as are expenditures for their provision.

(3) Where market-type goods or services are sold incidental to the usual social or community activities of government departments or agencies at a price generally designed to approximate the cost of production, it is impractical to separate them from other government activities and they are not considered to be the product of industries. The entire gross proceeds of their sale are included in revenue and the entire expenditure on their production is included in expenditure. Examples in this category are timber in the case of forest preserves, products made at vocational schools, seeds from experimental farms, postcards and art reproductions sold by museums. If sale of market-type goods and services to the public is not the main activity of a unit and is in fact incidental to its other functions, and separate accounts are not available, such sale is not isolated from its other functions.

I.I. Nonfinancial Public Enterprises

Nonfinancial public enterprises are government-owned and/or government-controlled units which sell industrial or commercial goods and services to the public on a large scale or are corporate. Financial public enterprises, usually referred to as public financial institutions, are discussed in Section I.J below. Public enterprises are outside the general government sector, nonfinancial public enterprises forming part of the nonfinancial corporate and quasi-corporate enterprise sector and public financial institutions forming part of the financial institutions sector.

The term nonfinancial public enterprises is used in this Manual to refer only to nonfinancial corporate and quasi-corporate public enterprises, that is, those outside the government sector.

Ownership and/or control of public enterprises may occur at any level of government, including central, state, and local governments, and supranational authorities. Nonfinancial public enterprises may be majority owned and/or controlled by either the government itself or by other nonfinancial public enterprises or public financial institutions.

Corporate nonfinancial public enterprises are those recognized as business entities independent of their owners by virtue of legislation, administrative regulations, or registration. *Quasi-corporate* nonfinancial public enterprises are generally expected to have complete profit and loss statements and complete balance sheet accounts on the financial assets and liabilities, as well as the real assets, involved in the business; however, they may also include government agencies which are mainly

engaged in selling industrial or commercial goods and services to the public on a large scale without maintaining all of these accounts.

Like industries within government, nonfinancial public enterprises engage in producing and selling to the public the kinds of goods and services which are often produced by private business establishments, though they may set prices below full production costs or pursue policy goals of producer or consumer welfare. Public enterprises engage in a wide variety of business and commercial activities. Examples of public enterprises are nationalized farms, mining and manufacturing units, local, regional or national port facilities, toll roads, postal services, lotteries, municipal theaters, units letting dwellings and nonresidential buildings. Marketing boards and stabilization funds buying and selling commodities in the market, sometimes with major effects upon the economy, are also classified as nonfinancial public enterprises. Marketing boards that do not engage in large-scale sales to the public, however, but restrict themselves to regulatory functions such as the licensing of traders, should not be classified as nonfinancial public enterprises but, if majority financed and/or controlled by government, as a part of the government itself.

Nonfinancial public enterprises are separated from the general government sector because they are engaged in activities different in nature from government and encounter production, cost, and financing problems involving nongovernmental considerations.

These problems are believed to occur with corporate structure—that is, operation as business entities independent of their owners—and with significant size. The criteria distinguishing nonfinancial public enterprises from departmental enterprises inside government, therefore, are corporate character or sale to the public on a large scale. The question of whether prices or charges are set profitably or below the full costs of production is not taken into consideration. Public enterprises are assumed to maintain their own working balances and business credit and to finance their capital formation out of retained profits, depreciation reserves, or borrowing, with some independence from the parent public authorities.

Thus, while the financing of departmental enterprises' capital needs is integrated with parent governments, the financing of public enterprises' capital needs is treated independently from government. The operations of departmental enterprises are reflected in statistics for government as the surplus or deficit resulting from operating sales and expenses plus the full capital formation expenditure and financing, including any change in balances. The operations of public enterprises, on the other hand, appear in statistics for government only as actual payments to and from the government—usually as payments to the government out of profits determined after their provision not only for operating expenses but for capital costs and retained reserves as well. Public enterprises' balances and financing operations are not integrated with statistics for government.

There are distinct advantages of consistency and international comparability in treating as public enterprises all government-owned and/or government-controlled units with a corporate character or significant industrial or commercial sales to the public. Proper compilation of statistics on this basis, however, may require special care. Transactions and balances may have to be allocated among functions and activities mingled in the accounts. The separation of transactions and balances to maintain statistics for public enterprise operations outside government is discussed in Section II.I. Preparation of separate statistics for nonfinancial public enterprises is discussed in Section VI.A.

In some instances public enterprises may be found to be carrying out governmental functions, such as collecting a tax or making expenditures of a governmental nature. Such operations are considered to be carried out on behalf of the government in an agency capacity; they are accordingly separated from statistics for the enterprises and incorporated in the statistics for government.

Identification of nonfinancial public enterprises is important, among other reasons, to delimit the general government sector, from which they are excluded, and to define the nonfinancial public sector, in which they are included (Section I.K). Nonfinancial public enterprises are thus bounded on one side by departmental enterprises, which are unincorporated or are not mainly engaged in selling industrial or commercial goods and services to the public on a large scale, and on the other by private enterprises, which are not entirely or mainly government-owned and/or government-controlled. Ownership and control are described in the SNA as follows:

The public authorities, or private parties, are considered to be the owners of a given enterprise if they own all, or a majority, of the shares of, other forms of capital partici-

pation in, or equity of the unit. The criteria required in order to determine who controls an enterprise are more complex. Various means may be used in order effectively to determine all the main aspects of the management (policies, administration and operations) of the unit. This may be accomplished, for example, by choosing the majority of the board of directors or the managing directors, providing the staff of the organization, or specifying the policies and operating practices of the enterprise in detail. Because of the many forms in which government may exercise control over enterprises, it is difficult to describe the means of influencing the management of an enterprise which, in all cases, indicate who effectively controls a given enterprise. The important consideration in determining whether the public authorities are in control is: do they exercise an effective influence in all the main aspects of management; not merely such influence as is derived from the use of their regulatory powers of a general kind (SNA, 5.55).

Both majority ownership and control by government need not be present in all cases for classification as a public enterprise. Minority government ownership may be combined with effective control in a unit adjudged to be a public enterprise. Effective control may in other cases be too difficult to ascertain so that majority government ownership alone may be judged to indicate a public enterprise. Though various circumstances may make unequivocal determination of a public enterprise difficult, both the limits and meaning of public enterprises and the nonfinancial public sector are difficult to establish when there is widespread government ownership of enterprises.

I.J. Financial Institutions

The financial institutions sector as defined in this Manual comprises (1) all units primarily engaged in both incurring liabilities and acquiring financial assets in the market; (2) any acceptance of demand, time, or savings deposits; and (3) any performance of monetary authorities' functions. Any such bodies or activities in government are considered to be outside the general government sector and in the financial institutions sector. This exclusion of financial functions is necessary if the results of governmental operations normally reflected in government dealings with the financial system are not to be obscured by confusion of the two sectors. This differs, however, from the SNA, which retains in government the acceptance of demand, time, or savings deposits or performance of monetary authorities' functions by units that do not both incur liabilities and acquire financial assets in the market. These financial functions are gathered together only in an SNA supplementary table (Number 25) on the financial transactions of the consolidated monetary system. This Manual's departure from the SNA delineation of the general government sector and financial institutions sector is illustrated in Chart 3. This indicates particular financial functions carried out by government which should be classified under the various financial institutions subsectors.

The various parts of the financial institutions sector are grouped, according to their impact on the economy, into monetary (i.e., those whose liabilities are "money") and nonmonetary institutions. Monetary institutions comprise the central bank, or monetary authorities, and those banks whose liabilities include deposits payable and transferable on demand, often referred to as deposit money banks. Statistics for these two subsectors are combined to yield the monetary survey in the International Monetary Fund's monthly publication *International Financial Statistics* (IFS). (See Section V.A.) The nonmonetary institutions comprise insurance companies and pension funds and other financial institutions. It is the prime function of financial institutions to act as intermediaries in mobilizing and distributing the community's savings by creating financial assets for the community to hold and accepting financial claims upon others.

It is the role of the *monetary authorities subsector* to issue currency, control credit, manage the country's international reserves, and maintain general supervision of the monetary system. These duties are generally carried out by the central bank or a similar body such as a currency authority or a monetary agency, whose accounts consequently represent the monetary authorities subsector. In some countries, however, whether by historical precedent or design, some of these functions are exercised by institutions within the government itself. They may involve, for example, (1) the issue of subsidiary coin and low denomination notes by the treasury; (2) the management of gold and foreign exchange reserves held in the name of the treasury or some other government body; (3) the inclusion

of transactions with the International Monetary Fund (IMF) within the accounts of the government; or (4) government interposition, for balance of payments purposes, between domestic debtors and external creditors through the assumption of the rescheduled debts of others. Regardless of where such monetary authorities' functions are performed, they are considered by this Manual to be operations of the monetary authorities subsector. All transactions of this nature which appear in the government accounts, therefore, should be eliminated in the preparation of government finance statistics and replaced with a single imputed transaction between the government and the monetary authorities subsector representing the net flow of funds to or from the government from these activities. This is equivalent to the practice of showing such activities on a net basis, followed in some data systems, and attributing them to a financial institutions function. This adjustment process is described in Section II.J.1 below. This treatment differs from that in the SNA, it may be noted, in which such monetary authorities' functions carried out by bodies outside the central bank are attributed to the general government sector, except in SNA Table 25 as noted above. Profits flowing to the government from such operations, however, such as seigniorage on coin issue, would, like profit transfers from the central bank, be included in government revenues by this Manual.

The *deposit money banks subsector* is made up of those financial institutions other than the monetary authorities with liabilities primarily in the form of deposits payable on demand at par, without penalty or restrictions, and freely transferable by check or otherwise usable in making payments. In addition to institutions engaged in ordinary commercial banking activities, the deposit money banks subsector includes any demand deposit liabilities of the treasury or other government bodies, including the postal checking system. As a part of this banking activity some treasuries extend credit on promissory notes used for the payment of taxes. Statistics on all these activities should be distinguished from statistics for government and classified in the deposit money banks subsector. Adjustments to remove from government finance statistics entries for such activities which may be found in a government's accounts are described in Section II.J.

The *insurance companies and pension funds subsector* mobilizes community savings through the receipt of contractual premiums and invests the funds in other assets. Insurance companies include incorporated, mutual, and other bodies providing life, accident, sickness, fire, casualty, or other forms of insurance. Separately organized schemes established by government to provide various forms of insurance on a voluntary basis are a part of the insurance companies and pension funds subsector and not the government sector. Pension funds are separately organized schemes usually negotiated between employers and employees which provide income on retirement for specific groups of employees with different benefits and contributions and with an independently organized fund which engages in financial transactions in the capital market. Distinguished from pension funds and included in the general government sector are social security schemes, which involve compulsory employee and/or employer contributions, and are imposed, controlled, or financed by the government and are applicable to the entire community or to a large section of it. These are discussed in Section I.F. Also included in government rather than in the insurance companies and pension funds subsector are any government employee pension funds that invest all of their funds with the employing government.

The *other financial institutions subsector*, which excludes insurance companies and pension funds, includes institutions which either accept time or savings deposits—though not a significant quantity of demand deposits—from the community or engage in both the incurrence of nonmoney liabilities and the acquisition of financial claims on their own account in the capital market and/or abroad. Savings deposits are defined as interest-bearing obligations of financial institutions, other than demand deposits, that are represented by evidence of deposit, such as a passbook, and are in practice exchangeable on sight for currency, although the obligor may have formal right to require prior notification for withdrawal. Time deposits are interest-bearing obligations of financial institutions not transferable as a means of payment, represented by evidence of deposit, and carrying a fixed maturity for withdrawal without penalty. Other financial institutions would thus include savings banks, development banks, mortgage banks, building and loan associations, and finance and investment companies. Distinguished from the activities of such other financial institutions are limited lending or savings bodies within the general government sector. Lending bodies that derive *all* of their funds from the government and have no authority to incur liabilities to others are considered in this Manual to be a part of the general government sector. This would include housing loan funds

completely funded by government and the lending activities of regular departments or special funds set up within government which have no authority to accept deposits or other liabilities to the community. Bodies such as development banks, however, which may have liabilities to others or, though currently deriving all their financing from the government, have the authority to incur liabilities outside government, would be considered to be a part of the financial institutions sector and not of the general government sector.

Savings bodies whose funds flow automatically to government and whose liabilities are not in the form of time or savings deposits are regarded as part of the general government sector. This would embrace agencies established for the purpose of selling government savings bonds and channeling the funds automatically to government. However, post office savings accounts and the savings deposit functions of some treasuries, which accept time or savings deposits from the community and thus incur liabilities which constitute quasi-money, are included in the other financial institutions subsector even though their funds may flow automatically to the government. Where an activity to be excluded from the statistics for government is included in government accounts, adjustments will be required, as described in Section II.J.

The separation of financial institution functions from government is facilitated by the fact that most units that both incur liabilities and acquire financial assets on their own account in the market usually maintain separate accounts and also that monetary authorities' function transactions and deposit liabilities are generally identifiable in the government accounts. The nonfinancial transactions of such units and activities, for example, their expenditures, are usually of relatively minor significance and do not warrant extensive efforts to separate them from government if statistics for them are not readily available.

Though demand, time, and savings depository functions are considered to be outside the general government sector for purposes of government finance statistics, they may nonetheless be important in the provision of funds to finance government. This will appear in the statistics, however, not as deposits received by the government but as funds provided to the government through the financial institutions sector, in which the community's deposits are considered to have been made.

Like nonfinancial enterprises, financial institutions may be entirely or mainly owned and/or controlled by the government, in which case they are regarded as *public financial institutions*. The criteria for determining whether a financial institution is public or private are similar to those for nonfinancial enterprises and are set out in Section I.I.

I.K. Nonfinancial Public Sector

The nonfinancial public sector consists of the general government sector plus the nonfinancial corporate and quasi-corporate public enterprises. It differs from the total public sector referred to in the SNA (SNA 9.47), which also includes public financial institutions.

The nonfinancial public sector is not based on criteria of purpose or function as institutional sectors are but on the distinction between government and private ownership and/or control. It is founded mainly on the belief that government influence and impact on the economy operates also through the enterprises it owns and/or controls and which it may use as instruments for the execution of significant government policies. The analytical usefulness of the concept in different countries, therefore, depends upon the extent to which the government does in fact utilize government-owned and/or government-controlled enterprises, as distinct from other enterprises, as instruments for the execution of significant government policies. Where this is the case, the concept of the nonfinancial public sector may be useful in gauging the magnitude of the overall government "establishment," including all the operations and activities over which it exercises responsibility and close policy control. The magnitude of this sector and statistics on its operations may thus offer useful information on government leverage in the economy and how it is being utilized in such areas as overall saving, fixed capital formation, and recourse to the financial system.

Indeed, the total financing requirements of the general government sector and nonfinancial public enterprises and how they are met are important indicators of their overall operations and their impact on monetary developments in the economy. It is for this reason that the more restricted nonfinancial public sector concept is preferred in this Manual to the broader public sector which includes public financial institutions as well. Consolidation in a sector that includes public financial

institutions would eliminate statistics for those financing requirements of the general government and nonfinancial public enterprises which are met by the central bank and other government-owned and/or government-controlled banks. There is greater utility in financial statistics, therefore, in a nonfinancial public sector, which excludes public financial institutions.

Because public enterprises may be owned and/or controlled by the public authorities at any level of government, statistics on separate portions of the nonfinancial public sector may be found useful for some analytical purposes. These may embrace a particular government—central, state, or local—and the nonfinancial public enterprises it owns and/or controls or all governments and their public enterprises at a particular level, for example, the total local nonfinancial public sector. It may also be found useful to compile data for only the main agencies and public enterprises through which a government operates and for which data are available on a current basis. Such a combination may form a kind of “available nonfinancial public sector at the central government level,” for example, and prove useful for the current measurement of government policy and performance.

Particular care is necessary in combining the transactions of government and enterprises so as to aggregate only those transactions whose meanings are parallel in government and enterprise despite the different functions each performs. One would not wish, for example, to combine government tax collections with the gross sales proceeds of enterprises.

Procedures and adjustments involved in the consolidation of statistics for the various parts of the nonfinancial public sector are dealt with in Section VI.B.