General Introduction

This Manual deals with the compilation of statistics on the finances of government. A separate manual on this subject is needed because of the relatively important role of government activities in most economies and their special character. The focus is upon financial transactions—taxing, borrowing, spending, and lending—rather than on the utilization of labor, the consumption and production of goods, and other measures of physical volume. And rather than the keeping of accounts for the registration and control of individual transactions, the emphasis is upon the summarization and organization into statistics appropriate for analysis, planning, and policy determination.

Statistics on government finance appropriately selected and organized can facilitate the analysis of government operation and of its impact on the economy as a whole and on particular parts of the economy. While these statistics must reflect the institutions and practices of each country, a common system of definitions and classifications is helpful to users because it may more clearly identify economic impact and because it allows comparisons with other countries.

Government finance statistics can be distinguished from two other data systems. Government accounts are maintained by operating units for purposes of control and accountability. In the national accounts, data for government are recast in a form common to all sectors so as to measure and aggregate their production, income, consumption, capital accumulation and finance, and delineate intersectoral transactions. Each of the three data systems meets separate and important needs in itself. They are, moreover, interrelated. Government finance statistics are dependent upon administrative accounts; government finance statistics provide data that are needed for the compilation of national accounts.

This interrelationship should influence the form which each of the three data systems takes. Thus, while each is organized to meet its own primary function—administrative accountability, economic analysis of government operation, and integrated analysis of the economy as a whole, respectively—it should also take into consideration the character of the inputs it can receive from other data systems and the needs of the data systems which its output also serves. This affects compilation of government finance statistics in two ways. On the one hand, these statistics should utilize as input the most reliable data generated by the government administrative accounts for the financial transactions of government, adjusting these data as necessary to facilitate current and consistent economic evaluation of budgetary policies and developments as an aid to decision making and implementation. On the other hand, it is desirable for government finance statistics to follow the conventions and classifications utilized in construction of the national accounts for the entire economy, as laid out in the United Nations' *A System of National Accounts* (SNA) and the *Handbook of National Accounting* volume which deals with public sector accounts, insofar as these are consistent with the primary objective of analyzing the operation of the government sector itself. This should permit the subsequent incorporation in the national accounts of data compiled as government finance statistics after appropriate reconciliation with the concepts and data for other sectors. To some extent, as will be noted, this Manual departs from SNA practices. Thus, while the national accounts seek to measure all production, income, consumption, capital accumulation, and finance arising during the current period whether from current outlays, or outlays in the past (on capital goods) or in the future (on unfunded pensions to which no current contribution is made), this Manual focuses on outlays made during the current period. In the main, however, the Manual follows the practices of the SNA and where it departs this is usually indicated in the text or by a footnote. A comprehensive examination of the Manual's relation to the SNA is presented in Section V.C, with a full detailing of how data called for in this Manual can be utilized in the compilation of the relevant national accounts. It may be expected that any relevant changes emerging from the current review of the SNA would be reflected in future editions of this Manual.

The data system put forward in this Manual rests on three guiding principles. The first principle

holds that the government performs a function different from that of other sectors of the economy. The Manual defines the institutional coverage of the government sector to encompass units performing that function, that is, the implementation of public policy through the provision of primarily nonmarket services and the transfer of income, supported mainly by compulsory levies on other sectors. In this the Manual generally follows the lines of institutional sectorization laid down by the SNA, which classifies institutions by their principal functions. Like the SNA, the Manual excludes from government those units which sell industrial or commercial goods and services to the public on a large scale or are corporate. The Manual goes further than the SNA, however, in differentiating between performance of government and financial institutions functions in the economy. Unlike the SNA, the Manual separates from government any performance of monetary authorities' functions, such as foreign exchange and monetary management, and any banking functions, involving the acceptance of demand, time, or savings deposits from the public even if performed by units without the authority to both incur liabilities and acquire financial assets in the capital market. Economic analysis and comparability among countries are aided by grouping these activities with the activities of other financial institutions in a separate sector. Full separation of the government from the financial institutions sector is considered a prerequisite to analysis of the important transactions of the government with this sector.

The second guiding principle embodies a preference for measuring, rather than estimating or imputing, the gross flows of payments to and from government in a given time period. Gross flows are preferred, for all but the small-scale enterprise activities which remain within government, so as to reveal as much information as possible about government. Netting or offsetting some transactions against others can sometimes obscure significant movements of a component. Only external flows— those with the rest of the economy—are presented rather than the internal flows between one part of government and another. Unlike enterprises, which must keep account of their accrued liabilities to others (accounts payable) and of others' accrued liabilities to them (accounts receivable) in order to calculate their net worth, costs, and income, governments cannot maintain full accrual accounts. This is because most liabilities accruing to government or from government to others are generated not by deliveries but by occurrences in which government is not a direct participant and of which government may have no immediate knowledge. Thus, though tax liability to government accrues under law when sales are made or incomes earned, the government learns of these liabilities only later when they are reported to it. Similarly, though a government liability for unemployment compensation may accrue when unemployment occurs, the government learns of it only when a claim is filed. Governments generally keep accounts, therefore, on a payments, rather than accrual, basis. Data for payments flows, particularly for aggregate revenues and expenditures, are called for in the Manual because they represent the best ready approximation of the flows of funds and resources; they avoid problems of valuing resource flows; they correspond most closely with other financial statistics; and they constitute the basis on which most governments keep their accounts. Where payments data are not available for the details of government operations, use of the most reliable data available between the payment and delivery stages is recommended, with identification of any differences from the payment-based totals.

While the Manual is primarily aimed at the collection of data on financial transactions, there are other aspects of government operation which cannot be neglected if economic effects upon the economy are to be analyzed. Thus, government purchases which are not yet paid for can lead suppliers to seek bank credit similar in many respects to direct bank credit to government. Variations in the placement of government orders with suppliers can have important effects upon employment and economic activity well before actual delivery or payment for the merchandise. Similarly, on the revenue side it may facilitate examination of the effects of variations in income upon income taxes, for example, if taxes collected each year are also shown according to the year of income from which they arise. At the same time, transactions in kind may significantly supplement the flow of payments to and from governments. Such data are presented as supplementary tables in Section II.B of the Manual.

While these supplementary tables present data organized so as to portray particular aspects of government operations, there are other significant aspects which data can portray only with considerable difficulty or not at all. Thus, statistics on tax deductions and exemptions, which governments may use to benefit particular groups or activities much as they do by outright expenditures, can be

compiled only as departures from some assumed standard or normal tax treatment so that their measurement on a consistent basis may be difficult to achieve. Other aspects of government operation, though they involve no government transactions and so find no place in government finance statistics, may nonetheless have important effects upon the economy, as through government regulation and control. These are appropriate for other types of analysis, however, and are not taken up in this Manual.

While the Manual's second guiding principle calls for measuring the flow of payments into and out from government, the third calls for classifying these payment flows by what flows in the opposite direction—goods and services, "nothing," the liabilities of others to government, or the liabilities of government to others. Transactions are judged by a number of criteria: Are payments in to government or out? Do they involve a repayable claim or not? If not, is there a quid pro quo for the payment, that is, something in return, and is the payment for current or capital purposes, that is, involving capital assets above some minimum value to be used for nonmilitary productive purposes for more than a year? If the payment involves a repayable claim, is this a financial asset or liability of government and if a financial asset is it acquired for public policy purposes or in order to manage government liquidity? Classification of transactions by the criteria of this analytical framework produces the Manual's major analytical components—revenue, grants, expenditure, lending minus repayments, the deficit/surplus, and financing. Within each major component further classification proceeds on the basis of other distinguishing characteristics—the base on which each tax is levied, the function or purpose of an expenditure, as well as its economic nature, and both the kind of debt instrument and the debt holder from which financing is obtained. In its organization of the major components which deal with government lending and investing, the Manual differs in one important respect from the SNA. Whereas in the SNA the financial transactions of the government are organized similarly to those of other sectors, in this Manual they are organized differently, in recognition of differences of motivation. Thus, in determination of the deficit/surplus, the Manual groups government lending and acquisition of equities with other policy-promoting payments, that is, with outright expenditures, rather than treating them symmetrically with government borrowing as a means of financing expenditure, as the SNA does.

The organization of material in this Manual follows a series of steps proceeding from the general to the more particular.

I. The Manual opens with a survey of the *coverage* of government—the nature of activities and institutions which lie within the borders of the government sector as a whole and within its subsector parts, that is, central government, state government, local government, and, in a number of countries, supranational authorities. It deals also with the coverage of nonfinancial public enterprises, government-owned and/or controlled enterprises which are outside the government but may be grouped with it in what is referred to as the nonfinancial public sector. Clearly, the starting point for work on government finance statistics is a determination that the activities under study are indeed within the sector under examination and that other parts of that sector are not being omitted.

II. With the question of the activities and institutions to be included once resolved, it is appropriate to look to the *selection and preparation of data* depicting them. Guidelines for selection, preparation, and adjustment of data are then provided so that chronologically reported, consistent, consolidated statistics on government transactions can be assembled with aggregates on a payments basis and components on the most reliable basis available as close to the payment stage as possible.

III. The Manual then turns to the *analytical framework* which is to guide organization of the data on government activities along the path toward the basically financial analytical goals adopted.

IV. The main components of this analytical framework—revenue, grants, expenditure, lending minus repayments, deficit/surplus, financing, and debt—cannot by themselves provide a full understanding of the government's effect upon the economy, however. Principles for the homogeneous organization of the detail of these components are therefore spelled out in the chapter on the *classification* of such detail by economic characteristic, purpose, and financial effects.

V. The *relationships* between government finance statistics and other data systems, mainly money and banking statistics, balance of payments statistics, and national accounts, are then outlined. To facilitate use of government finance statistics compiled in accordance with this Manual for the purpose of constructing the national accounts, a *bridge table* between the two data systems is provided in this Manual and in the volume dealing with public sector accounts in the United Nations'

Handbook of National Accounting. This shows the specific government finance statistics categories to be drawn upon and the necessary additions or adjustments to be made in building each heading of the national accounts for government. A complete description and guide to the national accounts for government, nonfinancial public enterprises, and public financial institutions is to be found in the United Nations' *Handbook* volume.

VI. Supplementing the Manual's treatment of government in previous chapters, a separate set of tables for the organization of accrual-based data appropriate for the analysis of *nonfinancial public enterprises* is presented in the final chapter. A framework is then set out for consolidating with government selected nonfinancial public enterprise data adjusted to an approximate cash basis so as to represent some aspects of the *nonfinancial public sector.*

Major components of the Manual's analytical framework are summarized in Section III.K, with standard classifications of these major components presented in lettered Tables A through H in Chapter IV. Ready reference may be made to lettered tables by means of the black tabs which appear at the edge of these tables matching the tabs printed on the back cover of the Manual alongside a listing of these tables. Unless otherwise specified, tables are meant to be applicable to all levels and parts of government under study. While the detail in the tables makes them primarily appropriate for annual data, they are meant to be applicable with less detail to monthly or quarterly data as well.

The Manual concludes with a *glossary* of numerous items utilized in the discussions.

References to items in statistical tables are by their table and item numbers, A.2, for example, representing item 2 in Table A. Within the same table or in descriptions of other items of the same table, however, references are by the item number alone.