

Regional Course on 2008 SNA (Special Topics): Improving Exhaustiveness of GDP coverage

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Military Expenditures in 2008 SNA

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Changes related to assets and their boundaries

Differences SNA2008 compared to SNA 93	Where in SNA2008	Impact on GDP
C. Extension and further specification of the concepts of assets, capital formation and consumption of fixed capital		
1. Change of economic ownership introduced	chapter 3, paragraphs 3.21, 3.26, 3.169; chapter 10, paragraph 10.5	Not directly
2. Asset boundary extended to include research and development	chapter 10, paragraphs 10.103 to 10.105	Yes
3. Revised classification of assets introduced	chapter 3, paragraphs 3.5, 3.30 to 3.31, 3.37 to 3.39; chapter 10, paragraph 10.8	Yes, linked to extension
4. Extension of the assets boundary and government gross capital formation to include expenditure on weapons systems	chapter 10, paragraphs 10.87 and 10.144	Yes
5. The asset category “computer software” modified to include databases	chapter 10, paragraphs 10.110 to 10.114	Yes

Treatment of GFCF

The SNA draws a distinction between two types of durable goods used by the military:

- those “that are used in much the same way as in any other type of production,” are treated as GFCF;
- “destructive military weapons designed for combat” as rockets, missiles and their warheads and, by extension, warships, submarines, fighter aircraft and bombers, and tanks are considered destructive and are not treated as fixed assets, but IC of government

Problematic issues

This treatment is problematic for several reasons :

- It fails to recognize that weapon systems provide a nation with economic benefits by protecting the liberty and property of its citizens
- It fails to recognize the role of capital in the production of defence services.
- It fails to recognize that existing military equipment have value and can be sold.

Problematic issues

- The distinction between destructive equipment and non-destructive equipment that can be used for peaceful purposes is difficult to make in practice.
- The treatment of military equipment used by the military is inconsistent with the treatment of the same equipment (for example, armoured vehicles) used by internal police.
- The treatment is inconsistent with the latest international public sector financial accounting standards.

Main reasons to change

- a. The distinction between military equipment that can be used for civilian purposes and the equipment that cannot is difficult to make in practice and may lead to inconsistencies between countries

Main reasons to change - cont

- b. The weapons have value in global resale markets; consequently, their exclusion from the asset boundary implies that the balance sheets understate the market value of the assets held by governments.
- c. Destructive military equipment provides a nation with real economic benefits by protecting its citizens and their property – provide a defensive service .

Main reasons to change - cont

d. Adoption of new standards of accounting

The specialist military equipment is classified as property, plant, and equipment and require to be depreciated over their useful lives.

International Federation of Accountants recommends that NA recognise that military equipment can provide economic benefits to the economy in the form of defence services, in more than one period

Recommended changes of the 2008 SNA

- * Classification of the military weapon system as fixed assets based on the same criteria than the other assets
- * GFCF includes the military weapon system, including vehicles, other equipment (warships, submarines, military aircraft, tanks, missile carriers and launchers, etc) used continuously in the production of defence services.

Single-use items, such as ammunition, missiles, rockets, bombs, etc., delivered by weapons or weapons systems are treated as military inventories



Recommended changes of the 2008 SNA

The destruction of the weapon systems classified as fixed assets should be recorded in the “other changes in volume of assets account,” the same treatment as for other fixed assets that are destroyed in war.

If the single-use items, which are classified as inventories, are expended, whether in combat or in training exercises, their use should be classified as intermediate consumption by general government, with an reduction in inventories.



Treatment in national accounts - weapon system

Weapon system- in the 93SNA

Weapon systems are treated as intermediate consumption by general government.

Example

RoW	Total economy	Gen Government	NFC	Transactions	NFC	Gen Government	Total economy	RoW
1				P6 export of goods and services				
				P7 Imports of Goods and ser				3
	11	11		P1 Output	9	11	20	
	11	11		P2 Intermediate consumption				
	11	11		P3.Final consumption expenditures				

Treatment in national accounts - weapon system

- * Weapon system- in the 2008SNA
weapon systems are treated as GFCF



Ro W	Total econ	Gen gov	NFC	Transactions	NFC	Gen gov	Total econ	RoW
1				P6 export of goods and services				
				P7 Imports of Goods and services				3
				<i>Production accounts</i> P1 Output	9	8	17	
				P2 Intermediate consumption				
	8	8		K1 CFC				
	8	8		<i>Use of disposable income account</i> P3 Final consumption expenditure				
	11	11		<i>Capital account</i> P51 GFCF ¹⁴				
	-8	-8		K1 CFC				



Major implications

- * General government value added and GDP would be higher by an amount equal to the consumption of fixed capital on weapon systems (8 in this example)
- * General government net saving would be higher (lower) by the difference between gross fixed capital formation and consumption of fixed capital ($11 - 8 = 3$ in the example)

Issues of implementation

- * **Affect other international transactions**

Transfers of military equipment from one country to another would need to be reclassified as capital transfers rather than current transfers, a change presented in the Balance of Payments Manual. The Government Finance Statistics manual would also clearly need to be changed to reflect this set of recommendations.

Issues of implementation

- * **Some obstacle for implementation**
 - Secret nature of the data
 - Lack of data concerning munitions to include in the inventory