

# Consumption Subsidies Revisited

**Itsuo Sakuma**  
**Senshu University**

*The Japanese government launched the “GO TO Travel” campaign in late July, 2020 amid the COVID-19 pandemic to rescue beleaguered tourism industries by subsidizing travel expenses by 35%. The Cabinet Office, responsible for compiling national account statistics in Japan, determined that these subsidies should be treated as individual final consumption expenditures of the general government. This treatment implies that defrayal of these subsidies by the government was regarded as “consumption subsidies,” by using the term proposed by Jean-Claude Roman in 1985. However, the SNA in its 1993 version and in its 2008 version did not incorporate this concept. So, the Cabinet Office’s treatment is against the present SNA’s recommendations, though she changed the treatment by the end of November 2021. However, it may be worth reconsidering the concept and its treatment. In this paper, the author will review the discussion to clarify the key points involved.*

*Keywords: SNA, consumption subsidies, total consumption of the population*

## INTRODUCTION

Amid the COVID-19 pandemic, the Japanese government launched the “GO TO Travel” campaign in late July, 2020 to rescue beleaguered tourism industries by subsidizing (domestic) travel expenses by 35%. In addition to the discount, the campaign released a coupon worth 15% of the expenses from early October. You can use the coupons for shopping at souvenir shops, transport, as well as meals at restaurants though they are not refundable. A point to notice may be that the government fund for the campaign was directed to enterprises like travel agencies, not travellers.<sup>1</sup>

Apparently, quite naturally, the discount part of “GO TO Travel” should be regarded as subsidies in the SNA though the coupon part may be interpreted in several ways. However, the Economic and Social Research Institute (ESRI) of the Cabinet Office, responsible for compiling national accounts statistics in Japan decided that defrayal of subsidies (discount part as well as coupons part) by the government should be deemed to be individual consumption expenditure of the general government. In other words, Japan's government considered these subsidies “consumption subsidies” by using the terminology that was once quite common among national accountants, especially in the revision process from the SNA 1968 to the SNA 1993 or the ESA counterpart.<sup>2</sup>

The purpose of the present paper is to revisit and reconsider the concept and its treatment in national accounts statistics. First of all, it should be aware that according to paragraph 29.69 in the SNA 2008, the ESRI violated the recommendation concerning the subsidies involved in the campaign. Incidentally, the following is the only paragraph in the SNA 2008 where the term “consumption subsidies” appears:

29.69 In some situations, there may be subsidies designed to reduce the prices paid by final consumers for certain goods or services, such as food, transport services, or housing services. They are commonly called consumption subsidies. In the central framework, when these goods and services are considered market products, they are included in final consumption at purchasers' prices. (...)

The above paragraph conveys some information about the recommended treatment of consumption subsidies in the central framework (not satellite accounts) of the current SNA, which will be mentioned again later in this paper. In any case, the Japanese government's subsidies for the "GO TO Travel" campaign should be treated just as an ordinary kind of subsidy that is a negative component of purchasers' prices.

This paper is organized as follows. In the first section that follows the introduction, the concept of total consumption of the population as a starting point of discussion will be taken up. The concept originally appeared in the MPS (Material Product System) and then the ICP (International Comparison Project) and United Nations guidelines on the distribution statistics adopted the concept so as to compare consumption under institutionally different backgrounds. The second section will deal with Jean-Claude Roman's proposal of the concept of consumption subsidies. His concept is deeply related to total consumption of the population. The third section will show how the SNA 1993/the ESA 95 handled the problem. Finally, we will reconsider the present situation surrounding the concept of consumption subsidies to conclude the paper.

## **“TOTAL CONSUMPTION OF THE POPULATION” AS A STARTING POINT OF DISCUSSION**

Let us start a discussion by introducing a key concept “total consumption of the population.” It originated in the MPS, that is, centrally planned economies' standard system of accounts and balances. In fact, in paragraph 1.119 in United Nations [1971], the term “total consumption of the population” first appears:

1.119 In addition to the consumption of material goods by the population, out of national income, indicators of the total consumption of non-material services and material goods by the population may be calculated. The total consumption of the population here includes the entire volume of marketed and unmarketed non-material services (...).

More exactly, according to para. 1.122 in United Nations [1971], the services of the public utility system and other services providing common amenities, such as housing, education, culture and art, health services and physical culture, and other forms of service (by notaries and lawyers, services of banks to the public in exchanging foreign currency, transferring funds, issuing letters of credit, etc.) should be included in total consumption of the population. However, the services of general government, financial and insurance organisations (besides those noted above) and science and scientific service are not included. See the following table reproduced from Table 1.1 of MPS (United Nations [1971], p.33).

**TABLE 1**  
**TOTAL CONSUMPTION OF MATERIAL GOODS AND NONMATERIAL SERVICES**

		Personal consumption of material goods	Consumption of nonmaterial services			Total consumption (1+2)	Of which: Consumption of material goods from the national income (1+3)
			Total	Material part of non-material services	Non-material part of non-material services		
		1	2	3	4	5	6
01	Total consumption of material goods and nonmaterial services						
02	Personal consumption of material goods by the population						
03	Consumption of non-material services - total						
04	Public utilities and amenities						
05	Housing						
06	Education						
07	Culture and art						
08	Health services and physical culture						
09	Social welfare services						
10	Other						

Naturally, *Provisional Distribution Statistics Guidelines* published by the United Nations in 1977<sup>3</sup>, which purport to provide a link between the SNA and the MPS<sup>4</sup> adopted this concept. The following paragraph is from this literature.

1.14 In many developing countries, the consumption financed out of the income of the households themselves in cash or in kind or derived from their own production is supplemented by services provided free or at reduced prices by government and private non-profit institutions and by industries. The distribution of the sum of household final consumption expenditure and the services provided free of charge to households (i.e., the total consumption of the population) provides a better picture of the distribution of welfare among different population groups than does household final consumption expenditure alone.

From the viewpoint of distribution statistics, the significance of this concept is very clearly stated in the paragraph above. In fact, various services such as housing, education, health, and cultural and artistic services tend to be provided to the population in community-specific ways. The following table reproduces Table II.1 Part C of United Nations [1977].

**TABLE 2**  
**TOTAL CONSUMPTION AND INCOME OF THE POPULATION**

4. Final consumption expenditure of households	1. Total available household income
5. Consumer debt interest paid	2. Income due to free or reduced cost services furnished by government and private non-profit institutions and industries and due to government subsidies (7+8+9+10)
6. Other current transfer paid	3. Total available income of the population
7. Final consumption expenditure of general government assigned to households	
8. Final consumption expenditure of private non-profit bodies assigned to households	
9. Expenditure of industries assigned to households	
10. Subsidies paid by government included in total consumption of the population	
11. Total consumption of the population	
12. Gross saving	
Disbursements	Receipts

Source: United Nations [1977], p.13.

As seen from the table, it should be emphasised here that total consumption of the population includes certain subsidies paid by government. In fact, the paragraph 5.9 in United Nations [1977], states that total consumption of the population should include certain subsidies, for example, on housing and pharmaceutical products.

Although there is no explicit mention of any kind of subsidies in United Nations [1971], it is stated that the value of non-material services rendered free of charge, or at charges less than cost, should be estimated as equal to the current expenditures of the enterprises and institutions rendering such services (para. 1.123).

It is natural that the ICP (International Comparison Project) that started in 1968 adopted the concept of total consumption of the population as one of the three major functional types of final product, "Consumption Expenditure of the Population (CEP)." Its phase I report (Kravis, et al. [1975]) stated that it seems important to make the country-to-country comparisons of these functional types of product invariant to the institutional arrangements governing their provision; whether households or governments pay for them should not affect the quantity comparisons or the weights these types of product receive in quantity comparisons or aggregates in which these types of products are included (p.27).

Regarding the borderline between CEP and another major functional types of final product, "Public Final Expenditure (PFC)," <sup>5</sup>the following items should be included in CEP not PFC<sup>6</sup>:

1. Current expenditures of government for provision, assistance, or support of housing other than that included in the compensation of employees of the government sector (part of item 6.1 in Table 5.3 of SNA 1968).
2. Current government expenditures on hospitals and clinics and individual health services (item 4.2 and 4.3 in Table 5.3 of SNA 1968) and similar expenditures by private non-profit institutions serving households (item 3 in Table 4.4 of SNA 1968)
3. Government expenditures on schools, universities and other educational facilities and subsidiary services (item 3.2 and 3.3 in Table 5.3 of SNA 1968) and similar expenditures by private non-profit institutions serving households (item 3 in Table 5.4 of SNA 1968).
4. Expenditures on recreational and related cultural services and religion and services n.e.c. (item 7.1 and 7.2 in Table 5.3 of SNA 1968) and similar expenditures by private non-profit institutions serving households (item 5 in Table 5.4 of SNA 1968).
5. Expenditures on welfare services by government and by non-profit institutions serving households (item 5.2 in Table 5.3 and item 4 in Table 5.4 of SNA 1968).

One thing to notice here is that ICP version of the concept of total consumption of the population includes government subsidies for current housing services (Kravis, et al. [1975], p.26). The explanation for this treatment may be interesting:

In some sectors in which governments paid for substantial portions of the total cost of a commodity or service, however, we tried to estimate what may be regarded as the total market price—that paid by households plus that paid by governments. This was done, for example, in connection with housing services.

The reason for this treatment is that, in some countries, the use of prices paid by households alone would lead to a gross underestimation of the relative importance of certain categories of expenditures (p.23).

As stated earlier, the distribution statistics guideline (United Nations [1977]) is considered to link the MPS and the SNA. Moreover, it can be seen as a literature that links the SNA 1968 and the SNA 1993 as well. In fact, the income and outlay accounts reconstructed in the 1993 version of the SNA can reflect national accountants' thoughts on the concept of total consumption of the population. We will return to this point in Section 3. However, before that, we should examine Jean-Claude Roman's concept of consumption subsidies, which in the present context, might be defined tentatively as subsidies included in total consumption of the population or similar enlarged or comprehensive concepts of consumption.<sup>7</sup>

### **ROMAN'S PROPOSAL: CONSUMPTION SUBSIDIES**

In this section, Jean-Claude Roman's contributions are to be examined. Because Roman's paper (Roman [1985]) dealt with the treatment of subsidies in general in the SNA/the ESA, we first look at the definition of subsidies. According to the Glossary, the SNA 1968 defined subsidies as follows:

All grants on current account made by government to private industries and public corporations; and grants made by the public authorities to government enterprises in compensation for operating losses when these losses are clearly the consequence of policy of the government to maintain prices at a level below costs of production.

Thus, subsidies in the SNA 1968 are current transfers from government units to private industries<sup>8</sup> and public corporations as well as certain payments by public authorities to government enterprises for compensation for operating losses. Note that by definition, grants to nonmarket producers are never regarded as subsidies.

On the other hand, ESA's definition of subsidies in its 1979 version (Eurostat [1979], para.421) was as follows.

Subsidies are defined as current transfers which general government or Institutions of the European Community make as a matter of economic and social policy to resident units producing or importing goods and market services with the objectives of influencing their prices and/or making it possible for factors of production to receive an adequate remuneration.

The two definitions are quite similar, though it may be necessary to assume that goods are only produced by establishments about private industries. However, the former definition looks somewhat wider in that no restriction on policy objectives seems to exist. In the 1993 version of the SNA, a clearer definition of subsidies was given. That is, subsidies were defined as current unrequited payments that government units, including non-resident government units, make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services they produce, sell or import. Furthermore, in the 1993 version, it was made clear that subsidies are receivable by resident producers or

importers. (Roman called it “rule of recipients.”) Concerning policy objectives, it was stated that they may be designed to influence their levels of production, the prices at which their outputs are sold or the remuneration of the institutional units engaged in production. An important point to notice may be that subsidies were regarded as equivalent to negative taxes on production in so far as their impact on the operating surplus is in the opposite direction to that of taxes on production (para.7.71). Also, it should be mentioned that corresponding to the concept of taxes on products, the SNA 1993 introduce subsidies on products. Thus, in the SNA 1993, the category “subsidies” (D.3) is divided into two subcategories “subsidies on products” (D.31)<sup>9</sup> and “other subsidies on production” (D.39)<sup>10</sup>.

Roman criticised the treatment of subsidies over several points. However, the central issues addressed were the following two points<sup>11</sup>.

- (1) As mentioned, subsidies are recorded as resources in the accounts of the market producers who receive them. Is this “rule of recipient” applicable without exception? Roman claimed that “rule of beneficiary” may be sometimes preferable. The rule of beneficiary means that the subsidies should be recorded as resources of the units benefiting from them. He took an example of subsidies granted to the diesel distributor in order to compensate for a price reduction which he was obliged to grant to the farmer who bought it. He stressed instability to institutional changes under the rule of recipient, since a slight institutional change (e.g., direct grant to farmers) cause a change in the treatment of the flows. However, there is difficulty in identifying the unit(s) benefiting. Or, there are too many beneficiaries. In the case of diesel price deduction, not only farmers but also fuel producers, workers, as well as consumers may benefit from the subsidies. He proposed limiting the beneficiary rule to the case where the subsidy paid to the recipient is compensation for a price reduction granted to a specific category or specific categories<sup>12</sup> of purchasers.
- (2) Roman stated that from an economic point of view, certain subsidies made to market units to reduce the price of goods and services consumed by households were similar to certain kinds of social benefits or government expenditure. However, for us, this statement is not so new, for we have seen in the previous section, some subsidies were included in the concept of total consumption of the population in United Nations [1977] and the concept of consumption expenditure of the population in the ICP included housing subsidies. A remark may be needed. This point is deeply linked to the previous point (1) in that it is necessary to leave the recipient rule to consider which subsidies are relevant.

He proposed naming the relevant subsidies “consumption subsidies.” Surely, they involve payments for households’ consumption by general government. However, the dividing line between consumption subsidies and other subsidies is still to be determined. He suggested the “social benefits” approach. That is, he proposed that consumption subsidies comprise all transfers to market producer units in order to

- (1) finance the production of goods and services, which are granted personally to households and which are intended to relieve households of the financial burden created by the appearance, or existence, of certain risks or needs, or
- (2) ensure that a specific category of households benefits from a price reduction specially granted to them<sup>13</sup>.

The list of risks or needs that should be considered in (1) is the same as that appears in the definition of social benefits in the ESA in its 1979 version<sup>14</sup>. It comprises the following:

- (a) sickness
- (b) old age, death and survivors
- (c) disability
- (d) physical or mental infirmity
- (e) industrial injury and occupational disease
- (f) unemployment
- (g) family responsibility
- (h) personal injuries suffered because of act of war, other political events and natural disasters
- (i) vocational training of adults

(j) housing

A few comments are needed here. First, regarding (1), social risks and needs, old and new, addressed by European welfare states are shown as (a)~(j). Member countries may address these problems in the social insurance system and other policy instruments. In the former case, the corresponding flows may be social insurance benefits; in the latter, they may be social assistance benefits. Regarding (2), he just proposed incorporating his beneficiary principle into the concept. For example, transport subsidies for large households may be included in the category of consumption subsidies because of (1)(g), and transport subsidies for military personnel only should be also included because of (2).

With respect to the treatment of consumption subsidies, Roman proposed that they should be treated as individual consumption expenditure of general government, and accordingly, actual final consumption of households, both concepts of which were being proposed during the then ongoing revision process of the SNA/the ESA.

## HOW THE REVISION OF THE SNA AND THE ESA REACT TO THE PROPOSAL

Caralp wrote in 1998: “After years debating the consumption subsidies concept, no unanimous solution has been adopted.”<sup>15</sup> In fact, there were arguments for and against Roman’s proposal in the revision process of the SNA, which we summarise below more or less along the lines of Caralp [1998].

For:

- 1) From an economic point of view, the effects of consumption subsidies totally mirror the effect of social benefits or certain kinds of government consumption (individual consumption of general government using the terminology of the SNA 1993.). To overlook this aspect is to under-estimate public economic intervention;
- 2) The proposed evaluation of aggregates will improve international comparability. The importance of this aspect seemed to be strengthened by the events in Eastern Europe.
- 3) Aside from the international comparability viewpoint, distribution point of view may be another strength.

Against:

- 1) Household consumer decisions depend on prices actually paid. Therefore, the proposal made by Roman should be regarded as an arbitrary manipulation of the reality. The particular situations of the transition countries seemed to end soon.
- 2) In reality, can a subsidy purely be of benefit to consumers without, in part, also benefiting producers?
- 3) If consumption subsidies are treated as individual consumption of general government, nominal GDP at market prices increases, which some of compiling agencies would favour for some not statistical reasons.
- 4) Subsidies are negative taxes on production, so, why not evaluate consumption and some other aggregates at factor costs.
- 5) Roman’s proposal requires criteria to be defined to enable to determine which subsidies are consumption subsidies, which repeated meetings of national accounts experts could not decide.

Because of the arguments against the proposal being predominant, the revised SNA did not adopt the concept of consumption subsidies as was proposed by Roman in his 1985 paper. In fact, in the SNA 1993, the following paragraph (para. 21.75) can be found in a chapter for satellite analysis and accounts:

21.75 In some situations, there may be subsidies designed to reduce the prices paid by final consumers for certain goods or services, such as food, transport services, or housing services. They are commonly called consumption subsidies. In the central framework, when these goods and services are considered market products, they are included in final consumption at purchasers’ prices. In a satellite account there are two options: either consumption (item 1) is valued differently from the central framework in order to include

the value of consumption subsidies or consumption is valued as it is in the central framework and specific current transfers (item 4) must include consumption subsidies. Subsidies included in item 4 may also be directed toward reducing the prices of intermediate consumption. Item 4 may also include other subsidies on production.

The same paragraph can be found in the present SNA (the SNA 2008, para. 29.69), the first part of which is quoted earlier in this paper. In summary, apart from satellite accounts, consumption subsidies, meaning subsidies designed to reduce the prices paid by final consumers for certain goods or services, should be treated just as ordinary subsidies that are negative components of purchasers' prices. However, in satellite accounts, the 1993 SNA recommends a supplementary presentation that makes it possible to show, outside the System, actual final consumption with an alternative valuation that includes the value of consumption subsidies<sup>16</sup>.

Some points need to be made. Firstly, the term "consumption subsidies" is not used in the sense proposed by Roman [1985] but is used here in more general sense. Secondly, in the quoted paragraph, "item 1" and "item 4" refer to Table 21.1 "Components of uses/national expenditure." "Item 1" means "Consumption of specific goods and goods and services", and "item 4" means "Specific current transfers (not counterpart of item 1)." Thus, data provided in proposed satellite accounts will make it possible to compile the figures for individual consumption expenditure of general government (and NPISHs) and actual final consumption of households taking consumption subsidies into account. Here, some explanations may be needed about some of the newly appeared concepts in the SNA 1993. In the SNA 1993 as well as the ESA 1995, the key distinctions of individual consumption /collective consumption, and of final consumption expenditure/actual final consumption were introduced.

Consumption expenditure by general government or NPISHs is either for the benefit of the community at large (for example, general administration, defence, scientific research, judiciary, etc.) or for the benefit of individual households (for example, education, medical care, health, etc.).<sup>17</sup> The former type of consumption expenditure is called "collective consumption expenditure" and the latter type is called "individual consumption expenditure.") This distinction is deeply related to another key distinction. In fact, the use of the term "consumption expenditure" means that the consumption in question is assigned to an economic unit that bears the cost, and the use of the term "actual final consumption" means that the consumption in question is assigned to an economic unit whose conditions are actually transformed by the goods acquired or the services rendered. Thus, the services paid for by the government or NPISHs and enjoyed by households are recorded as individual consumption expenditures by the government or NPISHs and actual final consumption of households. So-called "public goods" type of services like defence produced by the government are recorded as collective consumption expenditure by the general government and actual final consumption of government. Note that the size of individual consumption expenditure of general government is at the same time that of the social transfer in kind in the SNA 1993. That is,

Actual final consumption of households

= Final consumption expenditure of households  
+ Social transfer in kind from general government to households

Actual final consumption of government

= Government final consumption expenditure  
- Social transfer in kind from general government to households

For individual /collective distinction for the expenditure of the government and NPISHs, some statistical standards published by the United Nations such as Classification of the Functions of Government (COFOG), Classification of Individual Consumption According to Purpose (COICOP), as well as Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI)<sup>18</sup> may be useful.

The following is the list of divisions in the COICOP with some detailed information.



## COICOP: DIVISIONS

### 01-12 INDIVIDUAL CONSUMPTION EXPENDITURE OF HOUSEHOLDS

- 01 Food and non-alcoholic beverages
- 02 Alcoholic beverages, tobacco and narcotics
- 03 Clothing and footwear
- 04 Housing, water, electricity, gas and other fuels
- 05 Furnishings, household equipment and routine household maintenance
- 06 Health
- 07 Transport
- 08 Communication
- 09 Recreation and culture
- 10 Education
- 11 Restaurants and hotels
- 12 Miscellaneous goods and services

- 12.4 Social protection

### 13 INDIVIDUAL CONSUMPTION EXPENDITURE OF NON-PROFIT INSTITUTIONS SERVING HOUSEHOLDS (NPISHs)

- 13.1 Housing
- 13.2 Health
- 13.3 Recreation and culture
- 13.4 Education
- 13.5 Social protection
- 13.6 Other services

### 14 INDIVIDUAL CONSUMPTION EXPENDITURE OF GOVERNMENT

- 14.1 Housing COFOG Groups 10.6
- 14.2 Health COFOG Groups 07.1 to 07.4
- 14.3 Recreation and culture COFOG Groups 08.1 to 08.2
- 14.4 Education COFOG Groups 09.1 to 09.6
- 14.5 Social protection COFOG Groups 10.1 to 10.5 and Group 10.7<sup>19</sup>

The table below (Table 3.1 in United Nations [2000]) shows a possible matrix presentation of COICOP statistics. It also shows distribution of individual consumption expenditure among institutional sectors<sup>20</sup>.

The revised version of the ESA was published two years later than the publication of the revised SNA. Because of this and other reasons, the ESA reacted somewhat differently towards Roman's proposal.

**TABLE 3**  
**SUGGESTED PRESENTATION OF COICOP STATISTICS IN MATRIX FORMAT**

Purpose	COICOP: households	COICOP: NPISHs	COICOP: government	Actual individual consumption
Food and non-alcoholic beverages	01			01
Alcoholic beverages, tobacco, etc.	02			02
Clothing and footwear	03			03
Housing, water and fuel	04	13.1	14.1	04 + 13.1 + 14.1
Furnishings, household equipment, etc.	05			05
Health	06	13.2	14.2	06 + 13.2 + 14.2
Transport	07			07
Communication	08			08
Recreation and culture	09	13.3	14.3	09 + 13.3 + 14.3
Education	10	13.4	14.4	10 + 13.4 + 14.4
Restaurants and hotels	11			11
Social protection	12.4	13.5	14.5	12.4 + 13.5 + 14.5
Miscellaneous goods and services	12 (less 12.4)			12 (less 12.4)
Other services		13.6		13.6
<b>Total</b>				

Source: United Nations (2000), p.20

Let us look at the new paragraph in which the definition of social benefits was given.

4.83 Social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by government units and NPISHs; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs.

Compare this paragraph with the corresponding paragraph 475 in the previous ESA shown below.

475. Definition: Social benefits (R64) include all current transfers, in cash or in kind, provided to households through the intervention of a third party (i.e., by a unit other than a household), which are made to individuals and which are intended to relieve households of the financial burden created by the appearance, or existence, of certain risks or needs, without there being any simultaneous, equivalent counterpart provided by the beneficiary.

It may be easily understood that the ESA 1995 incorporated consumption subsidies as Roman proposed into its concept of social benefits. The following paragraph includes the new risk list and relevant needs for defining social benefits.

4.84. The list of risks or needs which may give rise to social benefits is, by convention, fixed as follows:

- a) sickness;
- b) invalidity, disability;
- c) occupational accident or disease;
- d) old age;
- e) survivors;
- f) maternity;

- g) family;
- h) promotion of employment;
- i) unemployment;
- j) housing;
- k) education;
- l) general neediness.

The paragraph 4.38 j) is more explicit:

j) payments made by general government to market producers to pay entirely, or in part, for goods and services that those market producers provide directly and individually to households in the context of social risks or needs (see paragraph 4.84.), and to which the households have a legally established right. These payments are included in individual consumption expenditure of general government (P31) and subsequently in social benefits in kind (D.631) and actual individual consumption of households (R41).

Thus, reactions from the side of the ESA were rather different than those from SNA side. Caralp [1998, para.19] noted that on the ESA side, situations of member countries must have been considered. For example, he mentioned:

- in Denmark, with regard to subsidies paid by the State to producers of pharmaceutical products, orthopaedic equipment, doctors, dentists and other health service providers. These payments were considered to be general government consumption expenditure. As for housing subsidies, these were treated as household transfers;
- in France, with regard to public transport, subsidies granted to enterprises to enable them to lower charges for certain user categories were treated as social benefits or miscellaneous current household transfers, according to the case in point.

As for item (2) in Roman’s proposal of consumption subsidies, no special treatment was stipulated. That is, the beneficiary rule was not adopted in the ESA 1995. More generally, subsidies with no “social” objective are not regarded as consumption subsidies. For example, local governments’ payments to enterprises that run recreational, cultural sports facilities to reduce admission fees, etc. were not considered individual consumption expenditure of general government<sup>21</sup>.

The difference described above in the treatment of certain subsidies between the SNA 93 and the ESA 1995 continues to exist even now (between the SNA 2008 and the ESA 2010), which is worth addressing in the ongoing revision process of national accounts statistics standards.

The following table summarises the present situation about the treatment of certain subsidies. “Yes” means that the subsidies in question can be regarded as individual consumption of general government under the rules of the system and “No” means that the subsidies in question are given no special treatment.

**TABLE 4  
TREATMENT OF CERTAIN SUBSIDIES IN THE SNA AND THE ESA**

Type of subsidies	SNA 1993 Core	SNA 1993 Satellite	ESA 1995
Subsidies in social field	No.	Yes.	Yes.
Subsidies in non-social field	No.	Yes.	No.

### **SOME CONCLUDING REMARKS**

Firstly, in this last section, let us return to the case of Japanese implementation. It was already described that Japanese government’s payments concerning her “GO TO Travel” campaign was mistakenly regarded

as individual consumption expenditure of general government by the ESRI, governmental agency charged with compilation of national accounts statistics in Japan. The right treatment in the author's opinion, may be that the discount part of the campaign should be deemed as subsidies on products and coupon part should be subsidies on production within the central framework of the SNA.<sup>22</sup> As a matter of course, tourism in general is not in the "social" field, so the subsidies in question are not consumption subsidies and consequently individual consumption expenditure of general government even in the conceptual framework of the ESA. On 22 November, 2021, the ESRI announced the change of the treatment of government's payments (the discount part and the coupon part) concerning the "GO TO Travel" campaign, when they were regarded as current transfer payments from the government to households. Regarding the coupon part, the new treatment is somewhat better, though treatment of the discount part is just an application of the beneficiary principle that cannot be accepted. Additional difficulty may be that the "GO TO Travel" discounts (and coupons) might be utilized by business travelers.

Secondly, it should be pointed out that there are some differences between the SNA and the ESA concerning the meaning of "social." The sense in the ESA is somewhat wider in that education is not so social in the SNA for example, so that some concepts such as "social benefits," "social assistance benefits," and "transfer of individual non-market goods or services" have some slightly different meanings between the SNA and the ESA.

Thirdly, relevance of the market/nonmarket distinction to the problem we now consider should be noticed. As mentioned earlier, market producers only can receive subsidies. The responses from various economic units to the market situation should be not be manipulated but described as they are. In fact, para.2.46 in the SNA 1993, "the fundamental role played by the market in modern economies" was referred to and the three categories of producers were introduced, that is, "market producers," "producers for own final use" and "other non-market producers."<sup>23</sup>

Because market producers are defined as establishments producing mostly goods and services for sale at prices which are economically significant. Then, what are "economically significant prices"? The paragraph 4.58 in the SNA 1993 gives the following explanation.

4.58 Market producers are producers that sell most or all of their output at prices that are economically significant - i.e., at prices which have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. (...)

The SNA 2008 made a new paragraph (para.22.28) in order to give additional information about the concept "economically significant prices":

22.28 To be considered as a market producer, a unit must provide all or most of its output to others at prices that are economically significant. Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and on the amounts purchasers wish to buy. These prices normally result when:

- a. The producer has an incentive to adjust supply either with the goal of making a profit in the long run or, at a minimum, covering capital and other costs; and
- b. Consumers have the freedom to purchase or not purchase and make the choice on the basis of the prices charged.

Also, the next paragraph (para. 22.29) also explains some more including the so-called "50% rule." This rule seems to be a kind of compromise with the cost-cover rule for the definition of industries (and commodities) in the SNA 1968, where the core of industries is made up of 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 costs of production.<sup>24</sup>

22.29 These conditions usually mean that prices are economically significant if sales cover the majority of the producer's costs and consumers are free to choose whether to buy and

how much to buy on the basis of the prices charged. Although there is no prescriptive numerical relationship between the value of output (excluding both taxes and subsidies on products) and the production costs, one would normally expect the value of goods and services sold (the sales) to average at least half of the production costs over a sustained multiyear period.

The next three paragraphs have some relevance to the present discussion. Because whether subsidised units can be market or not is the author's concern.

22.30 Because economic circumstances vary considerably, it may be desirable to accept different thresholds to achieve consistent economic measurement over time, between units and across countries. In principle, the distinction between market and non-market should be made on a case-by-case basis.

22.31 It can be presumed that prices are economically significant when the producers are private corporations. When there is public control, however, the unit's prices may be modified for public policy purposes. This may cause difficulties in determining whether the prices are economically significant. Public corporations are often established to provide goods that the market would not produce in the desired quantities or at the desired prices. Even when the sales of such corporations may cover a large portion of their costs, one can expect that they respond to forces quite differently than would private corporations.

22.32 It is likely that corporations receiving substantial government financial support, or that enjoy other risk reducing factors such as government guarantees, will act differently from corporations without such advantages because their budget constraints are softer. A non-market producer is a producer that faces a very soft budget constraint so that the producer is not likely to respond to changes in the economic conditions in the same way as market producers.

If government grants subsidies to non-governmental institutions to promote cultural or recreational activities, which are not in the social sphere, do these subsidies constitute individual consumption expenditure of general government? In the author's opinion, it depends on whether the sales of the outputs these units produce are enough to cover the costs of the units without the subsidies in question in normal circumstances. If so, they are ordinary subsidies, and if not, they are consumption subsidies in Roman's sense so that they might constitute individual consumption expenditure of general government if the ESA rules are to be followed.

In concluding this last section and the paper as a whole, we suggest that there are remaining problems that should be addressed. Firstly, there are some differences in concepts as shown in this paper between the SNA and the ESA that should be re-examined. Secondly, "consumption subsidies" should be one of the fields to be discussed in the revision process in progress. Thirdly and lastly, the market/nonmarket distinction in the present system needs more reconsideration. For one thing, whether (substantially) subsidised units or activities can be in the market sphere or not may be questioned, when we know they cannot essentially be in "core industry" in the SNA 1968.

## ENDNOTES

- <sup>1</sup> Apart from the "GO TO Travel" campaign, the government of Japan provided some other "GO TO" programmes to encourage consumption expenditure including "GO TO EAT" and the "GO TO EVENTS." However, the focus is only on the "GO TO Travel" here.
- <sup>2</sup> The terminology used in this paragraph is different from Roman's original definition of consumption subsidies.
- <sup>3</sup> United Nations [1977].
- <sup>4</sup> United Nations [1977], para. 2.13.

- 5 The third major functional category of final product is Gross Capital Formation (GCF), which is the same as  
the corresponding category in the SNA except that the ICP version of the concept includes net export.
- 6 Kravis, et al. [1975], p.44. Note that general administration part of each classification category of the  
purposes of government is excluded from CEP.
- 7 See Vanoli [1978] and Saunders [1980] for enlarged consumption concepts.
- 8 Note the term “industries” is used in the sense of those in the SNA 1968. So, in the present usage, it roughly  
means market producers.
- 9 This subcategory (D31) is further divided into “import subsidies” (D.311), “export subsidies” (D.312) and  
“other subsidies on products” (D.319).
- 10 For example, subsidies on payroll or workforce and subsidies to reduce pollution are included in the item  
D.39 (para. 7.79 in the SNA 1993).
- 11 What Roman criticised was the treatment of subsidies in the 1968 version of the SNA and the 1979 version  
of the ESA, but what the SNA 1993 did was considered to be a clarification rather than a change of the  
treatment.
- 12 Not all categories.
- 13 Roman [1985], p.50.
- 14 Eurostat [1979], para.476. In para.4.84 in the ESA 1995 (Eurostat [1996]), a slightly different list of risks and  
needs appears.
- 15 Caralp [1998], para. 36.
- 16 Also see Annex 1 of the SNA 1993 “Changes from the 1968 System of Accounts,” para.54.
- 17 By convention, all consumption expenditure by NPISHs is treated as being for the benefit of individual  
households.
- 18 United Nations [2000].
- 19 Groups 10.1 to 10.5 and 10.7 are as follows: 10.1 sickness and disability; 10.2 old age; 10.3 survivors; 10.4  
family and children; 10.5 unemployment; 10.7 social exclusion not elsewhere classified.
- 20 As was stated earlier, in the ICP, it was required to separate general administration elements from each  
classification category of the purposes of government in order to obtain CEP (the ICP version of the concept  
of actual individual consumption). However, such separation is not required in the SNA 1993.
- 21 Caralp [1998], para. 23.
- 22 Coupons that can be used in shops and restaurants other than the issuer may be considered to be a form of  
means of promotion. In the “GO TO” campaign, it may be considered that the government made it possible  
for hotels, etc. to issue coupons for promotion purposes. However, coupon part of “GO TO” campaign may  
be treated otherwise. For example, it may be deemed to be direct transfer payments from government to  
households (tourists).
- 23 A similar distinction was placed on output. That is, market output, output for own final use, and non-market  
output of government and NPISHs.
- 24 In other words, they produce commodities (SNA 1968, para. 5.7).

## REFERENCES

- Caralp, B. (1998, September 22-25). Consumption Subsidies in National Accounts Systems. *OECD Meeting of National Accounts Experts*, Château de la Muette, Paris.
- Eurostat. (1979). *European System of Integrated Economic Accounts ESA*, Second edition.
- Eurostat. (1996). *European System of Accounts ESA 1995*.
- Eurostat. (2013). *European System of Accounts ESA 2010*.
- Kravis, I.B., Kenessey, Z., Heston, A., & Summers, R. (1975). *A System of International Comparisons of Gross Product and Purchasing Power*. Johns Hopkins University Press.
- Roman, J-C. (1985). Treatment of Subsidies in National Accounts. *Review of Income and Wealth*, 31(1), 39–61.
- Sakuma, I. (2021, October 30-31). Why is government defrayal in relation to the ‘GO TO’ campaign not individual consumption expenditures of general government? Paper presented at the *32nd Annual Conference of The Pan Pacific Association of Input-Output Studies*, Tokyo, Japan, (in Japanese).
- Saunders, C. (1980). Measures of Total Household Consumption. *Review of Income and Wealth*, 26(4), 351–66.

- United Nations. (1971). *Basic Principles of the System of Balances of the National Economy*, ST/STAT/SER. F17.
- United Nations. (1977). *Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households*, ST/ESA/STAT/SER.M/61.
- United Nations. (2000). *Classifications of Expenditure According to Purpose: Classification of the Functions of Government (COFOG), Classification of Individual Consumption According to Purpose (COICOP), Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI), Classification of the Outlays of Producers According to Purpose (COPP)*, ST/ESA/STAT/SER.M/84.
- Vanoli, A. (1978). Les notions de consommation élargie. *Economie et statistique*, 100, 55–63.