2008 SCN

Non Financial Assets

Military Weapon Systems as Fixed Assets

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23 - 25 November 2010  Port-Louis - MAURITIUS
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Chair of the process

Follow-up of the Reports of the Task Force on National Accounts (Convener: Intersecretariat Working Group on National Accounts (ISWGNA). under the Statistical Commission of the Economic and Social Council
Criteria for identifying issues for updating

Thirty-fourth session : 4-7 March 2003

- Issues that are emerging in the new economic environment;
- Old issues that have been discussed and rejected before in the 1993 revision process but may need a further look in the new economic environment due either to their economic significance and/or to an advancement in methodological research that may justify a different treatment of the issues;
- Old issues that have been discussed and rejected before in the 1993 revision process should not be candidates for updating if no changes in the economic environment or progress in methodology research warrant their consideration for updating.
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The shadow military asset

- This is the situation of the treatment of part of military equipment and weapons as intermediate consumption, not gross capital formation.

- The treatment of military equipment and weapons was not explicitly in the list of issues; maybe in ”Capital input in production account for productivity analysis” topic supervised by Canberra II/OECD known as the Canberra Group.
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Extension of the list

In the Thirty-fifth session : 2-5 March 2004

- the list of issues is opened to include "additional items like consumer durables, treatment of military equipment, and return on capital assets of general government in order to ensure full accounting on general government"

- After this, "military assets" appears explicitly on the agenda of the Canberra II Group;

- One member of the Commission out of 24 "disagreed with the capitalization of military weapons".
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It is relevant to note that countries have not fully implemented all the 1993 SNA concepts that affect gross domestic product (GDP). For example, countries may capitalize government defence expenditure on fixed assets that can be used for civilian purposes, but may not include consumption of fixed capital of all government fixed assets in the output of government services, or vice versa.

... for a country with a significant mineral sector to be classified as 1993 SNA-adherent, that country should have implemented the capitalization of mineral exploration. On the other hand, for a country with insignificant defence expenditure, the capitalization of military equipment that can be used for civilian purposes is not imperative.”
Final Decision

In the Thirty-sixth session: 1-4 March 2005

“Military weapon systems as fixed assets - accepted all the recommendations from the issues paper, the principal one being to recognize expenditure on military weapons systems as fixed capital formation but separate accounts for military and non-military capital formation”
two types of Military assets:

- **Expenditure on assets** such as roads, schools, computers, etc. that can be used for civilian purposes are treated as **gross capital formation**
- Expenditures on weapons that cannot be used for non-military purposes are treated as intermediate consumption of general government.
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ANNEX I. 70: The 1993 SNA treats as gross fixed capital formation all expenditures by the military on fixed assets of a kind that could be acquired by civilian users for purposes of production and that the military use in the same way; this would include airfields, docks, roads, hospitals and other buildings or structures. On the other hand, military weapons, and vehicles and equipment whose sole purpose is to launch or deliver such weapons, are not to be treated as gross fixed capital formation but as intermediate consumption. The 1968 SNA excluded from gross fixed capital formation almost all military expenditures except those on construction or alteration of family dwellings for personnel of the armed forces.
6.172 : Light weapons and armoured vehicles are also acquired by non-military establishments engaged in internal security or policing activities, including establishments owned by market security services. Weapons or armoured vehicles acquired by police and security services are treated as fixed assets, even though expenditures on the same kind of equipment by military establishments would be treated as intermediate.
Argument against the current treatment

- Weapons such as tanks, airplanes, etc. are similar to any other fixed asset: they have long-life, can be used repeatedly to produce security or defense services to the nation.
- The treatment is inconsistent. When weapons purchased by police they are gross capital formation but when bought by the military they are intermediate goods;
- Improper accounting: As weapons are recorded as intermediate consumption or spent after production. However, they may be exported in the following periods, the accounting balance would require recording them as negative intermediate consumption;
- The treatment is inconsistent with public sector financial accounting.
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Military weapon in the SNA2008

- Military weapon systems are treated as fixed assets if they are themselves used repeatedly, or continuously, in processes of production for more than one year.

- Military items that are essentially designed for use on a single occasion should be treated as materials and supplies inventories. Items such as bullets, bombs, grenades, and torpedoes are designed for a single use, and although durable, cannot generally be thought of as items that are used continuously in production.
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However, some single-use items, such as ballistic missiles, may provide an on-going service of deterrence against aggressors and therefore, meet the general criteria for classification as fixed assets.

In addition, gross capital formation and assets should be divided into two groups: military and non-military ones. It is important to do so since for economic analysis one would want to link non-military gross capital formation to long-term economic growth but one would not expect increase in military gross capital formation to lead to long-term economic growth.
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Shall we adjust the GDP?

- Output Approach of the GDP: Government intermediate consumption decreases; therefore, the output of the Government decreases in the same output and the value added (GDP) does not change.

- Expenditure approach: the Government final expenditure decreases and gross fixed capital formation increases on the same amount. In this sense it would not change GDP.

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Due to secrecy, What do we propose?
Identification of potential Government agents

- Military and security force (Army, Navy and air force, National Gendermerie and National Police)
- Para-military: Penitentiary administration (Administration pénitentiaire), the customs department (Douanes), the Ex-Servicemen (Ancien Combattants) and Gamekeeper (gardes-Chasse et gardes-forestier)
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Data Sources

- Administrative documents: Balance Accounts of the treasury (Balance des comptes du trésor)
- Administrative Survey
- Website: "http://en.wikipedia.org/wiki/Military_of_Cameroon"
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**Data collection**

**TAB.:** Data on military weapon

<table>
<thead>
<tr>
<th>Account</th>
<th>Label</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>2278</td>
<td>Armements et autres matériels militaires</td>
<td>26 350</td>
<td>3 946</td>
<td>14 322</td>
</tr>
<tr>
<td>6198</td>
<td>Entretien des installations portuaires et des aéroports militaires</td>
<td>57</td>
<td>80</td>
<td>46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>26 407</strong></td>
<td><strong>4 026</strong></td>
<td><strong>14 368</strong></td>
</tr>
</tbody>
</table>
Findings

Data
- No data on para-military expenditures
- No details for splitting data into civil and military use
- According to ministry of Finance, most of army expenditures are hidden in other accounts.

Implications on 1993 SNA implementation
- No intermediate consumption on military and para-military expenditures
- All expenditures are GFCF.
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2008SNA Implementation

**TAB.: Old stock classification**

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<tr>
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<tbody>
<tr>
<td>P52</td>
<td>Variation de Stocks</td>
</tr>
<tr>
<td>P5200A</td>
<td>Variation de stocks de matières premières</td>
</tr>
<tr>
<td>P5200B</td>
<td>Variation de stocks de produits en cours</td>
</tr>
<tr>
<td>P5200C</td>
<td>Variation de stocks de produits finis</td>
</tr>
<tr>
<td>P5200D</td>
<td>Variation de stocks de biens pour revente</td>
</tr>
</tbody>
</table>
**New classification matching the SNA**

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<tr>
<td>P5200A</td>
<td>Variation de stocks de matières premières et d’armements militaires</td>
</tr>
<tr>
<td>P5200A001</td>
<td>Variation de stocks de matières premières</td>
</tr>
<tr>
<td>P5200A002</td>
<td><em>Variation de stocks d’armements militaire</em></td>
</tr>
<tr>
<td>P5200B</td>
<td>Variation de stocks de produits en cours</td>
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Motivation of use Materials and supplies as proxy

2008SNA 6.232 Expenditures on military equipment, including large military weapons systems are treated as fixed capital formation, expenditure on durable military goods such as bombs, torpedoes and spare parts are recorded as inventories until used when they are recorded as intermediate consumption and a withdrawal from inventories.
Weapons systems are recognized as produced assets and classified separately.

Weapons systems (AN114)