

Note for the Participants

UN Statistical Office

Note prepared by the
United Nations Statistical Office

This note consists of two parts. The first part briefly provides some general background on the current interest in service statistics, including a discussion of the purpose and agenda of the meeting. The second part gives an indication of a number of the kinds of issues that are likely to arise when drafting classifications for this area.

Introduction and purpose of the meeting

The needs for more and better statistics on services have been emphasized in many papers and were underlined in several meetings in the United Nations as well as in the Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development and the European Communities. Taking into account the history and background of the present meeting, it seems hardly necessary to make a case for it. What is necessary, however, is to discuss what the contribution of the meeting could be in the development of such statistics.

Statistics on services include general statistical data such as location, employment, wages, hours worked, inputs, gross output, value added, consumption of fixed capital, productivity, capacity etc. but also statistics on foreign trade in services which has become increasingly important. Most comments received in response to a 1985 inquiry by the United Nations Statistical Office expressed the view that the final result of work on services statistics should be a set of guidelines and classifications, adopted by the UN Statistical Commission. These would then serve as instruments for worldwide harmonization of service statistics and could be further elaborated by interested organizations or countries. General statistics can be dealt with in much the same way as was done in the International Recommendations for Industrial Statistics, for Construction Statistics or on Statistics of the Distributive Trades and Services, recommendations that were issued in the sixties and seventies. However, when it comes to more detailed information specific for certain service areas, very little research has been done and hardly any documentation is yet available.

Some of the more important problems in this field are the following. More often than commodities, services are produced by small firms and it may therefore be difficult to keep up-to-date registers of such firms. Moreover, an important part of the transactions in services take place in an informal economy and it is therefore even more difficult to collect data for them. For many services no physical indicators or units of measurement have yet been defined and quantity and price components of changes in value are not sufficiently well separated. These problems will, however, differ from service industry to service industry. Although all these aspects should

eventually be studied, it is clear that no single organization will be able to do so on its own within a reasonable timeframe. Therefore the UN Statistical Office welcomes the offer of some countries to share the workload and to study each apart of the total area.

The UN Statistical Office is proposing to publish a report on collection, availability and use of statistics on services to be presented to the 25th session of the Statistical Commission in 1989. In this context it would be very useful if, under point one of the agenda, participants could inform the meeting about their experiences with such statistics, in particular about the needs expressed by industry circles or other users (what kind of data they want, detail, frequency etc.) and the methodology that should be followed in future guidelines. Under point two of the agenda it could then be discussed which areas of the services universe merit most immediate attention and which of the above mentioned problems should be addressed in the respective studies. It is in particular the sections 8 and 9 of the draft ISIC, Rev.3 that need most attention although the classifications for sections 6 and 7 also need revision.

Under point three of the agenda, the most important goal of the meeting needs to be an agreement upon the services area that could be covered by each organization or country. It is to be hoped that participants are ready to be somewhat flexible in their willingness to take up a task since recent information indicates that many are currently investigating the same areas which may thus have become rather popular. Particular experience in a certain field should, however, be an important factor in determining who does what. Under the last point of the agenda the discussion could focus on how the results of the partial studies by participants can be co-ordinated among themselves and be integrated in the ongoing work of the UN Statistical Commission.

In view of this ongoing work the main emphasis of the workload-to-share should lie on drafting classifications for the different service areas. This concerns activity (industry) as well as related product (service) classifications which should have different levels (hierarchy) and should be based on the needs of different kinds of users and the possibilities of data collection. The following paragraphs will therefore elaborate on some aspects of the work on classifications.

Classifications in the services area

Work on harmonization of economic classifications started some ten years ago when the Statistical Commission at its 19th session in Nairobi in 1976 requested the Statistical Office to prepare a draft ISIC, Rev.3 and a draft for a related product classification (CPC). In order to carry out this work, a working party was established co-sponsored by UN Statistical Office and the Statistical Office of the European Communities (SOEC) which met five times since. The UN Statistical Office also convened a number of expert group meetings on the same subject. Membership of both groups was more or less the same. In the meantime, the Statistical Commission requested at its 21st session in 1981 to also prepare a draft revision of the SITC, which should be

inter alia harmonized as much as possible with the emerging ISIC, Rev.3 and the new CPC.

Fortunately, all this coincided with work undertaken by the Customs Co-operation Council (CCC) in Brussels which started to revise its commodity nomenclature (CCCN) in 1975, simultaneously expanding it to the much more detailed Harmonized System (HS). Fortunately, because the HS, which was finally adopted by the Council in June 1984, contains some 5000 goods categories which are very well defined and have very extensive explanatory notes. From the beginning, the UN Statistical Office and other statistical organizations were members of the Harmonized System Committee and succeeded in introducing a number of statistical needs in the HS. Consequently, the SITC, Rev.3 and the CPC could use the HS categories as building blocks. In other words, both rearranged HS items, taking into account the characteristics of each specific classification. Through the HS, both UN classifications are now correlated in a reasonable way.

However, a necessary complication of this parallel work was that up till the end of 1984 almost all available time and manpower was devoted to the parts of ISIC and CPC dealing with transportable goods and their production and hardly any consideration was given to the parts dealing with services or service industries. The first parts of ISIC and CPC are now more or less finalized. Only in early 1985 a first tentative draft for the services area was published by SOEC. This draft was then discussed during the fifth UNSO/SOEC meeting in Luxembourg in June of that year. Taking into account the results of this meeting and written comments received from some countries, the UN Statistical Office made a first complete draft for the ISIC, Rev.3 and the CPC, including services. These drafts were again discussed in an expert group meeting in New York in April 1986 whereafter the drafts were submitted as documents to be reviewed by the Statistical Commission in 1987.

Although these drafts are now complete, many comments received and discussions held indicate that especially in the service area much has still to be done in order to obtain results that can serve the statistical needs in the years to come. The recent draft of ISIC, Rev.3 was mainly based on the existing ISIC, Rev.2, NACE and a number of national classifications. The problem, however, is that most of these classifications are relatively old and that, even in the most developed countries, not much detailed attention has been given to the apparently difficult service areas. The draft for the CPC is mainly based on the International Classification for Goods and Services (ICGS). This classification, however, dates already from 1976 and, although it was meant to be a classification of goods and services, particularly in the services area it is much more a further breakdown of activities.

One could wonder whether a classification for services is really more difficult to make than a classification of goods. It is doubtlessly true that a service often is constituted of many different sub-services and that most services have a unique character. However, this is also true for many goods. A machine can, for instance, be sold as such but often the price paid includes delivery, installation, etc. and more often than not, all kind of auxilliary apparatus are included as well. A car can be sold with or without

airconditioning, automatic gear, radio and many other appliances. According to the goods classification however, the machine will be classified as a machine and the car as a car whether or not the additional appliances are sold with it. Only for price statistics such distinctions will be made. A drum with some pipes in it is still a drum (with pipes, but this distinction may not be made in the classification); a drum with pipes that can be connected to a circulation system and which has a burner inside is classified as a boiler. The problem is to define at what point the drum is converted into a boiler.

For the services area the problems are somewhat the same. Possibly quality plays a more important role and presumably it is more difficult to distinguish between different categories. Also the problem of classifying combined services may be more complicated than in the goods area. One can sell, for instance, a transport service to a traveller. This can be very common transport where the client may have to stand all the way, it can be a first class ticket where advanced reservations were made, it can include a meal and it can even include a bed for part of the travel time. If all this were sold as an all-in ticket, the question could be raised whether this is one single service or whether in fact two or even three services were sold (travel, meal and hostel). If one company sold this combined ticket it may be statistically advantageous to consider it one service. Probably this company hired others to provide the meals and sleeping facilities in which case these others sold intermediate services, not to the final consumer but to the first company.

The question is now whether or not this difference in quality should be expressed in the classification. It could be argued that the main service in all cases is the transport from A to B but there are also good arguments to defend that the standing space sold constitutes a different service than a seat plus dinner plus bed. Much depends on the criteria applied in the service area under review and on the kind of detail wanted in the classification.

Another problem is that many services are often rendered equally by completely different industries. Legal advice is sold by law firms but also by banks, insurance companies, accounting companies, tax consultants, government agencies, employers organizations, labour unions, patent agencies etc. It is therefore not satisfactory, as was done in the current CPC draft, to include categories such as "services furnished by business, employers and professional organizations" (951) or "services provided by trade unions" (952) because such services may well include legal advice or representation which should be classified elsewhere.

Generally speaking, CPC categories such as "services provided by industry x" should be avoided because they result in extremely little statistical information. They can include everything an establishment classified in such an industry sells. Examples of how it should not be done are the current drafts for distributive trade, wholesale as well as retail trade, where both the activity (ISIC) and the output (CPC) breakdown refer to the commodities sold. It would be much more useful if criteria could be established that add more information to the statistics collected; in other

words if the criteria used in the ISIC were different from those in the CPC. Besides, for measuring the trade in commodities, the goods part of the CPC could be used, possibly in an aggregated form.

The above is a very incomplete summary of a number of the issues that are likely to arise when dealing with classifications of services. Moreover, even though this summary probably omitted a number of the most difficult issues, the examples mentioned may be illustrative for other areas as well. In this connection, the meeting will be invited to consider how contributions to the work on the revision of ISIC and the development of CPC can be made in good time for new proposals to be taken into account at the next meeting of the relevant expert group which is scheduled for the autumn of 1987. In particular it should be investigated

- (i) whether the structure of the current drafts of ISIC and CPC down to their lowest level are satisfactory
- (ii) whether the descriptions proposed in the drafts are appropriate
- (iii) whether the explanatory notes are adequate and correct
- (iv) whether the CPC headings as currently drafted represent a satisfactory output breakdown of the corresponding categories.

Where it is found that any of the above are unsatisfactory, it is suggested that the organization that agrees to take up that area should also take the lead in improving the current proposals including the structure, explanatory notes and product detail. At the same time the needs for more detailed classifications for certain regional or other purposes could be further explored.

It has earlier been agreed that the CPC should include all objects that can be subject of a transaction. For this reason intangible assets are also to be included although they, of course, are not considered to be services. It was also suggested that a relation should be established with the classification of invisibles as used in the Balance of Payments. On the other hand there have been numerous requests to establish special classifications for some areas of the economy that are not found as such in the ISIC. Examples for such special classifications are those for the energy sector, for tourism and for the information sector. The first one has already been dealt with in the current draft but the other two could be regarded as subjects to be added to the list of service categories that are to be shared by the participants of the meeting. Recently WEO and UNESCO were approached for comments or suggestions on the parts of ISIC and CPC that are of their concern.

It is expected that the co-operative effort on services statistics being considered at the present meeting will contribute to the broader goal of the modernization and harmonization of existing classifications for national and international use. It should be kept in mind that, in order to reach this goal, the proposals should be concise and not too complicated since otherwise the impossibility of data collection might hamper their implementation.