

Military Weapon Systems as Fixed Assets

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Current treatment in SNA93

- Military assets are divided into two types:
- Expenditure on assets such as roads, schools, computers, etc. that can be used for non-military 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.

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.

AEG recommendations

- 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.
- 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.

Implications of the recommendations

- The recommendation would move government final expenditure on weapons to government gross capital formation. In this sense it would not change GDP.
- However, GDP will change by the value of consumption of fixed capital calculated on the military assets.

Thank You