



The Desirability of Seeking Comparability between NAICS and NACE (ISIC) For BEA Advisory Committee meeting, May 3, 2002

One of the four principles of NAICS, as outlined in the introduction to the NAICS (North American Industrial Classification System) manual, is to strive for comparability at the two-digit level between NAICS and ISIC, the International Standard Industrial Classification for all economic activities, which is sponsored by the UN. Neither the manual nor deliberations of the US Economic Classification Policy Committee (ECPC) provide any guidance about the level of importance one should assign to the comparability principle relative to the other three principles: (1) The use of a production-oriented or supply-based framework, (2) The giving of special attention to new and emerging industries, service industries and industries producing advanced technologies and (3) The maintenance of time series continuity.

For the past couple of years, attention has been directed toward fostering comparability between NAICS and NACE, the industrial classification of Eurostat that is legally tied to ISIC. Discussions have taken place within a working group consisting of staff from Statistics Canada, Eurostat, and the ECPC and have examined comparability at the two-digit level as well as more detailed levels. (In fact the convergence-working group has already compiled a concordance that maps 6 digit NAICS categories into the corresponding NACE categories.) The working group issued two reports the most recent being a paper presented at the March 2002 UN Statistical Commission conference.

There are many ways to achieve greater comparability; the purpose of bringing the issue to the Advisory Committee is to obtain a sense of the preferences for the different possibilities. At present the working group is looking at the option of bringing about increased comparability by fostering a convergence between NAICS and NACE at a detailed level. No decision however has been made to pursue this path.

Generally, comparability between NAICS and NACE (ISIC) can be achieved in 3 ways. First, one can formulate a concordance between NAICS and NACE, as described above. Second, one can foster greater comparability at high levels of aggregation, having the same sectors containing the same two and three digit industries. Third, one can move the two classification structures closer by redefining industries and reassigning establishments.

Choosing among the three options does not solely rely on economic or statistical theory, but also on a balancing of cost and benefits. An assessment of the latter relies on the use of a greater comparability between the two classification systems. One can think of greater comparability between the different national industry classification systems as aiding studies of industry performance, productivity, and by implication, national economies. Given the increase in globalization, comparisons between the performances of industries in different countries are important to the efficient allocation of financial capital across borders and to the ability of both investors and regulators to assess the implications of cross-border mergers. Thus, there would seem to be much benefit to having greater comparability between NAICS and other industrial classification systems. However, the level of comparability that is needed is not clear. More specifically, is the detailed concordance already developed sufficient to attain the benefits of comparability?

The experience of converting from the SIC system provides a framework for assessing the costs of the different options. Broadly speaking the two main costs can be viewed as unsynchronized implementation schedules (this subsumes the different resource costs among the statistical agencies) and time series continuity. As is well known NAICS has not yet been fully implemented and will not be for a few more years. Accordingly, any large-scale change in NAICS to accommodate convergence would seem to require a large lead-time to implement. Time series continuity was a much talked about feature in the adoption of NAICS and would of course be an issue with any major change to accommodate greater comparability between NAICS and NACE.

In sum, there are three questions to be discussed: (1) At what level is comparability desired between NAICS and NACE (ISIC)? (2) How should the comparability be achieved? (3) Within the four principles of NAICS, what is the priority that should be assigned to comparability between NAICS and NACE (ISIC)?