

## Session 3: GDP: Media hype? Pitfalls in communicating and interpreting national accounts – Institutional communication and interpretation

Marco Buti

Ladies and gentlemen,

It is a pleasure to have been invited to, and to attend, the Eurostat's conference on national accounts 2009. It is my conviction that it is not possible to overrate the importance of macroeconomic statistics for policy making.

The European Commission, in particular DG ECFIN, is one of the largest *users* of macroeconomic statistics – I even like to say *consumer* of statistics, to well convey the idea that our existence as an effective policy-making and policy-advising department depends on the availability of meaningful, timely and reliable data. In our task of monitoring economic developments in the EU as whole, in the member states and globally, we make use of the full set of national accounts and other macroeconomic statistics compiled by Eurostat and the national statistics institutes.

I will discuss today the important role that statistics play in EU policy making in two blocks. Based on my experiences, I'll flag the areas where I see scope for an even greater role with

improved use of statistics. I will start with an overview of the central role that statistics play in the day-to-day policy making in the EU. Then I will look at the issue through the prism of the financial crisis on the basis of experiences over the past year.

## **1. The important role that statistics play in EU policy making**

National accounts statistics are central in EU policy making. The use of statistics in political procedures in the EU goes well beyond the government deficit and debt figures for the stability and growth pact. It is on the basis of GDP and GNI data that one decides how much each country pays to the EU budget; it is on the basis of regional income data that one decides which regions are entitled to a number of spending programmes (like the regional fund and the cohesion fund: it's a lot of money). Macroeconomic statistics also contribute to decide how the ECB equity (and its monetary income) is split among NCBs; soon the share of each country in the euro-area GDP will also contribute to decide the voting rotation scale in the ECB governing council. And it is also on the basis of national accounts' aggregates and other macroeconomic statistics that one decides which countries the Commission proposes the EU Council to join the euro area.

All these are very high-profile procedures that have substantial implications – including large financial implications. Although other organisations – like the UN and OECD – also refer to macroeconomic statistics to decide how to split their operating costs among members, no other group of sovereign countries refers so often to national accounts data in their daily business.

These uses would not have been possible if we did not trust the quality and comparability of macroeconomic statistics in the EU and the professionalism of national accountants. All the more as national accounts were created and developed as a basis for judgemental policy making purposes, but not necessarily for these normative uses. However, the peculiarity of the administrative uses of statistics is that there is more of a univocal relation of cause and effect between statistics and decisions. Once the numbers are revealed by statisticians, the leeway for policymakers is constrained.

Now, the question that can be asked is whether this massive use of national accounts data for administrative and political procedures in the EU has been a positive development. My response is positive, but a number of qualifications are necessary.

In several EU countries, the use of GDP/GNI data, and government deficit and debt figures for EU procedures has contributed to increase the relevance of national accounts data in the national debate, and improvements in the quality of data: in terms of timeliness and reliability. The EU peer pressure has also led to an increase in resources of statistical institutes and in their institutional relevance. Their de facto or de jure independence has also increased. The media interest in the indicators has also contributed to the quality of economic argument in several countries, and the public attention to the more meaningful data. Moreover, the reference to concrete data in a number of procedures has spared us from fruitless discussions and unproductive bargaining, and increased the predictability and accountability of a number of decisions.

But there are also a number of costs associated to the administrative use of statistics. The close relationship between statistics and policy reaction has generated a number of political incentives. All of us know of government transactions that were arranged or packed in a way or another to obtain a specific impact on government accounts. Some features of some transactions were only to get some cosmetic impact on the accounts, rather than for efficiency. By now, there exists rigorous empirical evidence supporting a statistically induced political behaviour.

In some cases – fortunately only a few, I think – there was evidence or at least suspicions that some figures were compiled in a less than rigorous manner. Even the size and timing of some data revisions may have been influenced by the use of these data in a number of procedures: stability pact, EU budget, regional funds.

Another qualification, from the data use perspective: In a number of occasions in the past, in the context of the Stability Pact there was an excessive emphasis on some magical numbers: the difference between 2.9% and 3.1% in the government deficit was the difference between praise and criticism, often without checking in much detail what was beyond those figures or how some budgetary adjustment had been achieved. Though the Pact remains a rule-based system with strong emphasis on the respect of quantitative ceilings and targets, its 2005 reform has led us to extend our analyses, paying attention to a wider set of indicators, well beyond those that are specifically mentioned in the Treaty, and to a detailed analysis of how member states are implementing their budgetary strategies.

The political incentives related to statistics are nothing new: those incentives appear each time a statistical indicator

becomes a target or a high-profile reference value, even if there is nothing like a formal procedure. Yet those incentives may become much stronger when there is a very close link between publication of data and policy reaction, because of an administrative use or a policy rule. I believe that all of us – statisticians and policy makers – still need to learn how to increase robustness to some of these incentives or pressures.

## **2. Statistical issues through the prism of the financial crisis.**

That brings me to the second topic on challenges in the policy making process in the absence of timely and reliable statistical information in the context of the financial crisis.

The European economy is now at an initial stage of the recovery, emerging from a crisis that was the deepest for several decades. There were very many causes behind the crisis and it is not the moment now to dissect the causes, consequences and responses to the crisis. We will be publishing soon a comprehensive report on the crisis.

This global recession was very often compared with the great depression of the 1930s, not only in relation to its genesis and nature but also in terms of depth. I believe however that the

comparison stops there. Though the recovery will be slow and there are risks of relapses in some sectors, we have reasons to believe that the comparison with the historical depression of the thirties does not extend to the length of the crisis. This is mainly because of the decisive, coordinated and unprecedented actions by fiscal and monetary authorities in the EU, the US and beyond which have avoided a much deeper and longer crisis.

The 1929 crisis was not only important for its historic proportions; it was also important because it constituted a turning moment in our learning of how the economies work and what policy makers can and should or should not do. And it was also a defining moment in the history of macroeconomic statistics. National accounts were created in the context of that episode with the specific purpose of policy making: to know where we are and where we are heading, to help deciding which policy actions are necessary. It was on the basis of national accounts' data that we have learned over the years about the structure of our economies and how shocks are transmitted among sectors and countries.

As the Great Depression marked the start of macroeconomic statistics, the current crisis provides scope to improve statistics and raise its value as a policy tool by improving frequency and timeliness of data in times of crisis and the depth and scope to

match the changing economic environment and structure. In this crisis - at times - policy makers felt that they had to fly blind without a map when making crucial decisions.

The crisis has called for reconsidering frequency, scope and depth of macroeconomic statistics.

Let me explain on the basis of my recent experiences and point at some possible areas of improvement:

### ***Frequency and timeliness of data***

In the climax of a deep crisis, national accounts are not of much use in *fine tuning* policy action. The compilation of national accounts or of financial accounts with quarterly frequencies and relative long publication lags suffice for policy making at cruising altitude but do not meet the requirements of crisis management: because the lags that are given to policy makers to decide, announce and implement urgent measures are counted in short weeks, not quarters. The policy maker needs to resort to data of much higher frequency, to monetary statistics published monthly with short lags, confidence indicators, industrial production or other short-term business statistics. In recent months, to assess vulnerabilities in the ability of countries and sectors to refinance their liabilities, we even compiled ourselves a number of weekly indicators.

Having higher frequency national accounts data at our disposal would have been very useful. In that respect, the production of national accounts is inflexible: accounts are published in a quarterly basis with the same lags, whatever the economic situation, when our economies are at cruising speed, in the climax of a crisis and during the recovery. I wonder whether this really needs to be like that. I am not pleading to have national accounts-based indicators with shorter lags and higher frequency on a routine basis. But national accountants would provide a major service to policy making if it was possible to have some simplified accounts or indicators with higher frequency and shorter publication lags when the circumstances so require, even if this implies 'nowcasting' a number of variables, sometimes blurring the boundaries between ex post hard data and ex ante forecasts. Looking ahead, we will need to have timely insights in the characteristics of the recovery to ensure adequate timing of the policy exits.

### ***Scope of data – contingent liabilities***

A second shortcoming of the available statistics during the crisis relates to the scope of macroeconomic statistics. Macroeconomic statistics did contain information on the accumulation of imbalances at a global scale. Yet, the available macroeconomic accounts do not always allow assessing properly the accumulation of vulnerabilities in a number of

sectors. Actually, national accounts are not well equipped to measure risk. National accounts do not yet contain enough information (often no information at all) on a number of risks and contingent liabilities borne by units and sectors, or on the maturity mismatches in the balance sheets of economic agents. These liabilities pose risks which may be different to normal debt but can nevertheless prove to be just as real should certain circumstances arise.

To gain a more complete picture of the state of the public finances, a better account of these contingent liabilities needs to be made. The ability to quantify the extent of these liabilities – both for conceptual and accounting reasons – is a first stumbling block in this process and therefore provides a first angle of approach. The mere act of quantification – or at least of disclosure of this quantification – can lead to moral hazard. Rather than leading us to abandon any attempt to measure contingent liabilities, however, these concerns should act as a guide to the approach to be taken. A first step in this exercise would be to define common standards for the collection and reporting of the data used to assess the risks. Governments could, in a first instance, be required to estimate the potential magnitude of the liabilities involved based on a number of objective criteria, mimicking the exercise undertaken by rating agencies when factoring financial sector related risks in to sovereign ratings. In this respect, the recent Eurostat Decision

on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis and the announcement that supplementary data will be published in October will contribute to reducing the high level of uncertainty on the risks that government is taking on.

### ***Depth of macro-statistics***

A third element concerns the depth of national accounts. There are also a number of other areas for which some financial engineering has not yet been satisfactorily integrated in the accounts. Structured products raise issues on the definition and classification of financial instruments; a more detailed classification of assets and liabilities could also be useful. Special purpose entities or other off-balance sheet vehicles, often established abroad, raise questions on the definition of institutional units in ESA and SNA, and even on the limits of the national economies.

In all, statisticians are not to be blamed for the difficulties policy makes encountered in identifying and addressing it. However, following the example of business accountants, fiscal and monetary policymakers, banking supervisors and other authorities, the statistical community should also reflect on what are the lessons to be drawn from the crisis from their own perspective. I have already mentioned some of the issues that

could be considered. In front of a distinguish audience of statistical experts it would not be wise for me to enter into further details.

## **Communication**

Let me conclude with some words on communication. The main direct users of macroeconomic statistics are policymakers. But the audience of national accounts is not only policy makers, but the whole public opinion. Policy makers need to explain to the population why a number of measures are being taken, and the public should be able to check how successful policy makers are – in controlling inflation, promoting growth, fighting unemployment and reducing income disparities, etc. This is not only for transparency in democratic societies, but also because of efficiency. When policy decisions are explained with reference to empiric evidence and well understood by the markets and the public at large, those policies will gain in efficiency.

One cannot expect the public to understand all details of all macroeconomic indicators. However, we need all – statisticians and policymakers – to make a specific effort in communication and in explaining better a number of concepts. Data users, both

experts and the public at large, should be informed of the merits and drawbacks of each indicator – for example, their respective margins of uncertainty when assessing the performance of different countries and regions. Moreover, the communication with the public also needs to improve when there are persistent gaps between the official measurements and popular perceptions.

---