Globalization and the growing defects of international economic statistics

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Background: The *Fickle Formulas* project

www.fickleformulas.org
My talk

- Based on multi-year research into negotiations of standards for balance of payments statistics

- Purposes

1. Taking a step back

2. Offering a different perspective on a key question for HS: Why is it so difficult to reform statistical standards?
Balance of payments statistics

- BOP stats
  - Trade, FDI, PFI, etc.
  - IMF issues guidelines

- Our ‘eye’ on the global economy
  - Guide policy-making
  - Inform public debates
  - Raw material for quant research
  - Etc.

→ Measurement quality of BOP data is critical
  - But it is low…
  - … and getting worse
Globalization and BOP statistics

• BOP statistics reflect post-WWII ‘national economy’-view of world economy

• At odds with contemporary transformations
  
  – “There is a growing appreciation that the statistical compilation tools and accounting frameworks designed and developed over the last 60 years … may reflect a world that no longer exists” (Nadim Ahmad, OECD)
Mexican merchandise trade surplus with United States

According to US import and export data

According to Mexican import and export data

According to US import and export data

Sources of measurement problems

- Growing complexity of economic transactions
  - De-nationalization of production regimes and ownership structures; rise global value chains and intra-firm trade
    - mis-attribution of geographical origin/destination
  - Digitization of economic activity = new products
    - misclassification of product categories
  - Etc.

- The economy is changing rapidly, but statistical standards aren’t why?
The 4 Cs of conservative bias

- Logics in national accounting
  - Comparability
  - Continuity
  - Certitude
  - Coherence
Comparability

- Comparability requires uniformity
- Finding consensus is hard
- Practical difficulties to implement changes

“The standard frameworks take a while to develop. … it takes time for these international discussions, but in the meantime the global economy is changing.” (Research interview with US BEA economists)
Continuity

- Change of standards disrupts time-series
- Creates path dependency: strong incentive to stick with existing standards even if they become less adequate
Certitude

- Objective ‘hard’ rules preferred over more flexible subjective judgments
  - Where is a product coming “from”?
    - Place of consignment vs. ‘origin’
    - Legal residence vs. ‘nationality’
  - How to classify hydromassage shower cabin?

- Data users want certainty; but certainty comes at a cost
  - Trade-off reliability vs. validity
Coherence

- National accounts as interlinked system
  
  “[W]e do not only put countries together in a database so that we can say this is country A and this is country B. We actually integrate it in a framework, so that everything adds ups with everything else”
  
  (Interview with senior statistician at OECD)

- Avoid spillover effects

  “[S]olving asymmetries in one item may create new asymmetries in another one” (BOPC 2016)
The resulting paradox

• Users expect statistics to…
  – draw on unambiguous sources [certitude],
  – allow for comparison over time [continuity] and across countries [comparability],
  – and they prize coherence—both internally and with holistic macroeconomic models

• The ambition of statisticians to meet these norms has undermined the ability of economic data to represent economic life more faithfully.
Thanks for your attention!

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