

The European System of Fiscal Statistics Needs Improvement



By **Dr Nancy Xenaki**, Seconded National Expert – EIPA Maastricht

The Eurozone needs reliable statistics. It is important to know whether the policies implemented by Member State produce the intended effects. Since statistics may reveal policy failure, it is also important for the integrity of the system that statistical institutes are protected from political interference. In the recently recommended measures, regarding the independence, integrity and accountability of the national and Community statistical authorities, the Commission should have spelled out the meaning of independence in terms of the needed functional or institutional independence rather than refer to a vague "professional" independence.

The problem

Monitoring the performance of the economic and monetary union (EMU) requires reliable statistics. However, the quality of European fiscal statistics has been repeatedly questioned because they are not always of the requisite accuracy and reliability. There has been under-reporting of the true size of government deficit and national public debt. This raises the spectre of potential conflicts of interest as governments may not be keen to release information that appears to demonstrate inability to achieve fiscal targets. Last year's allegations concerning misreporting of Greek statistics is a case in point. Portuguese and Italian fiscal statistics are also under re-assessment by Eurostat, although weaknesses in national statistical systems are widespread.

As early as November 2002, the European Commission anticipated this problem but it was not until recently, June 2005, that it proposed a code of practice and invited the European Council to consider the "professional independence" of the European statistical system.¹

In December 2004 the Commission published measures to improve the governance of the European system of fiscal statistics. These measures outlined three main lines of action:

- Enabling Eurostat to monitor public accounts directly.
- Strengthening the operational capacities of Eurostat and the Directorate-General for Economic and Financial Affairs.
- Enhancing the independence, integrity and accountability of the national statistical institutes by establishing European standards based on a code of conduct.

Despite declarations at the highest political level in favour

of improved statistical governance and notwithstanding the many and detailed ideas put forth by the Commission, national statistical institutes might not have the requisite independence to collect and disseminate information that may not provide support to the avowed policy objectives or public pronouncements of incumbent governments.

This short article examines what has been proposed and why it is not yet adequate to deal with the problem of potential political interference in the work of national statistical institutes.

The current framework

The compilation of official statistics in the EU is based on Article 285 of the European Community Treaty, which states:

"...The production of Community statistics shall conform to impartiality, reliability, objectivity, scientific independence, cost-effectiveness and statistical confidentiality; it shall not entail excessive burdens on economic operators".

Furthermore, Council Regulation 322/97 on Community Statistics stipulates that:

"...Community statistics shall be governed by the principles of impartiality, reliability, relevance, cost-effectiveness, statistical confidentiality and transparency".

Nonetheless, the national statistical offices world-wide are expected to comply with international standards, known as "the 10 fundamental principles", adopted by the United Nations Statistical Commission in April 1994.

A global review on the implementation of the fundamental principles conducted in 2003 by the United Nations Statistical Division (UNSD), showed that institutional weaknesses is indeed a problem for many national statistical institutes.²

Towards institutional benchmarking and independence ...

In June 2005 the Commission recommended the adoption of a code of Practice on the independence, integrity and accountability of the national and Community statistical authorities. The Code introduces the concept of "professional independence" meaning the independence of the statistical authorities from other policy, regulatory or administrative departments and bodies, as well as from private sector operators.

According to the Commission, the introduction of the concept of "professional independence", as the number one principle of the proposed code of Practice, goes beyond the current provision in Article 285 of the Treaty that requires the European statistics to be "scientifically independent". The Commission argues that the new concept of professional independence

guarantees the quality of the produced statistics while at the same time respects the different legal and administrative arrangements in the Member States.

Furthermore, the Commission advocates a monitoring process that will be based on reports on implementation and peer reviews carried out with the assistance of a task force and an external advisory body. At the end of this lengthy and laborious procedure the Commission will present a report to the European Parliament and the Council.

Finally, after three years and on the basis of the results of the implementation procedure and if the Commission finds it necessary it might propose a legally binding instrument in the form of a directive. This is an ambitious programme with innovative features.

... But will they make any difference?

The Commission communication of June 2005 is the result of a long process that started in 1994 when it became apparent that budgetary statistics had to be improved to support the implementation, monitoring as well as the assessment of the monetary and fiscal European policies.

The uneven implementation of the stability and growth pact is partly the result of Member State inability to bring public budgets close to balance or in surplus. But it is abetted by the fact that statistics are not always of the requisite accuracy and reliability.

Unfortunately the Commission measures are not strong

enough to remedy that problem. The two most innovative features of the proposed code are, first, the concept of "professional independence" that complements the concepts of "scientific independence" and "impartiality" provided in the EC Treaty and second, the implementing procedure based on specific indicators and peer review.

The Commission attempts a compromise between high quality statistics and respect for the national arrangements on collection and processing of official statistics. However, besides the different legal and administrative arrangements in the Member States, there are also important differences in aspects of governance such as transparency and confidentiality. Since most statistical institutes are public services, it is difficult for them to act independently even when statistical laws refer to such independence.

Apparently making national statistical institutes independent from direct government control is resisted both by politicians and by the staff of those institutes, but for different reasons. Governments want to maintain direct control on vital information, while staff fears loss of privileges such as permanent employment.

The Commission should have spelled out the meaning of indepen-

dence in terms of the needed functional or institutional independence rather than refer to a vague "professional" independence.

It also remains to be seen whether peer reviews will add value or whether peers will not dare speak out against other peers as happened with the ECOFIN decision of 25 November 2003, when the Council stepped back from censuring Germany and France for repeated breaching of the stability and growth pact.

In conclusion, the Eurozone needs reliable statistics. It is important to know whether the policies implemented by Member State produce the intended effects. Since statistics may reveal policy failure, it is also important for the integrity of the system that statistical institutes are protected from political interference. The Commission proposals for strengthening the European and national statistical practices are necessary. The question is whether they are also sufficient. ::

NOTES

¹ COM (2005) 217 final / 25.5.2005 "Communication from the Commission to the European Parliament and to the Council".

² The survey was a self-assessment exercise. The results are based on 112 responses out of 194 distributed questionnaires.

The Commission proposals for strengthening the European and national statistical practices are necessary. The question is whether they are also sufficient.