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Mr Paul Cheung
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Subject: Global consultation on the draft Guidelines on Integrated Economic Statistics

Dear Mr Cheung, Paul

I am pleased to note the progress made in drafting the document "Guidelines on Integrated Economic Statistics". As requested Eurostat has reviewed the document and the evaluation is hereby forwarded to you in annex.

We are looking forward to future cooperation in the development and promotion of integrated economic statistics.

Yours sincerely,

Walter Radermacher

ANNEX

INTEGRATED ECONOMIC STATISTICS

Eurostat welcomes this report. It gives a comprehensive, theoretical and practical approach to the needed integration of macro economic statistics. It rightly covers many of the aspects of integration, from the use of common definitions and methodologies, the necessity of a common and comprehensive business register, to the inclusion of the important condition on the governance of the statistical system.

The EU countries, with the regulatory powers of the European Union, are, by large, ahead in the implementation of the recommendations of the report regarding the use of international guidelines. Eurostat agrees with the report when its states that a real integration of macro economic statistics needs integration at the level of primary sources. This converges with the views of Eurostat regarding the future of the production system for the European Statistical System, which should move from a "stovepipe" approach to an "integrated" approach. A joint strategy has been put in place in the European Statistical System to promote integration at production level.

The report could give more strength to the recommendation on the use of administrative data, which is one of the cornerstones of the future production system in the EU. Also, consistency and integration in national accounts should not mask quality issues in national accounts when they exist. The report could mention the necessity for national accounts to develop in showing "variances" and not only "means", thus integrating social statistics inside national accounts. Finally, more integration at international level, extending what is done in the EU on a wider basis, would be welcome.

National accounts are indeed a powerful tool for integration.

User needs should constantly be the main preoccupation of statisticians. They demand that statistics deliver consistent and coherent messages. This explains the large success of national accounts, which is built as a consistent system (the S in SNA) and can be considered the vertebral column of economic statistics, as envisaged by the report

This is of course the case for national accounts in the EU, where the European System of Accounts (ESA 95 soon ESA 2010) is a regulation, leading to a very deep standardisation. A not anecdotal sign of this is the capacity of European national accountants to speak the same (strange) language, the "code" jargon of national accounts. In the working groups in Eurostat, you can hear sentences like: "*this transaction should be treated as D45 between S13 and S12*". While this is an incomprehensible language to non experts, it is the sign of a deep and shared standardisation of the detailed national accounts of the Member states of the European Union facilitating the integration of national accounts at EU level. While the SNA/ESA is also shared by non EU countries, in particular OECD countries, its implementation is less deep in these countries unfortunately limiting the full comparability of national accounts data.

In the EU, the integration brought by the ESA structure is particularly important regarding government accounts. Through its consistent non financial and financial accounts, it allows the compilation of a full set of government accounts, from production to balance sheets. Through its integration of all government controlled non market units inside the concept of the "general government", it has brought a powerful tool of monitoring global fiscal policies

in the EU. It is this integration which allowed the success in delivering the "Excessive Deficit Procedure statistics" that are probably the most used and scrutinised statistics in the EU.

But users do not demand only consistency and coherence. They demand that statistics reflect the variability of the situations of economic agents, in particular households. This was one of the main conclusions of the Stiglitz-Sen-Fitoussi report. The imperialistic dominance of the "mean", which is an abstract number, not corresponding to any single agent, should be rebalanced by statistics reflecting the variance of aggregates. Social statistics, through their surveys and censuses, have traditionally been the source of the statistics reflecting the variability of the situation of households. On the contrary, national accounts have traditionally been the vector of the "imperialistic mean": millions of households are summarized in a single and limited set of global balancing items.

In this context, our mandate is to allow the integration, inside the framework of national accounts, of the two approaches: the mean and the variance. This is indeed the way forward taken in the project launched in coordination between Eurostat and OECD to compile a breakdown of households' accounts, by level of revenues, by type of households, etc…There is no better example of the necessary statistical response to the simultaneous user needs of *consistence* and *variance*. It is however a challenge and the success of this project will be a yardstick of our capacity to respond to this simultaneous need of users, in the framework of the very constrained system of national accounts.

Too much integration can be negative to users

National accounts, while an integrated System, remain a good example of the still existing gap between theory and practice. While the national accounts are conceptually totally consistent, the sources of national accounts are so various that there are inconsistencies in practice more or less everywhere when compiling spontaneous accounts. Examples of inconsistencies in sources are numerous. In most countries, the total of taxes recorded as received by the general government will be systematically different from the total of taxes recorded as paid by businesses and households, through other sources. The surplus/deficit of institutional sectors will be different seen from the non financial accounts than from the financial accounts, because the former use non financial business sources and the latter banking sources. It is well known that there is a significant "asymmetry" between the total of exports inside the EU, and the total of imports inside EU. These major inconsistencies essentially originate from differences in the production of the underlying statistical systems: population, coverage, sampling, methodology, etc.

The art of national accountants is to resolve as much as possible these inconsistencies to deliver the most consistent set of data. However, as the SNA 2008 recognises in paragraphs 18.14 to 18.20, two approaches are open to a statistical office. The first is to remain open about the problem of inconsistencies and publish "statistical discrepancies". The aim is to show users something about the degree of reliability of the published data. The alternative is to remove the discrepancy by examining the data, making the best judgment possible about where the errors are likely to have arisen and modifying the data accordingly. Publish statistical discrepancies in each of the numerous tables of national accounts would considerably lower the usefulness of the national accounts for users.[1] Publish totally and

[1] While one has to recognise that users have been obliged to cope with the numerous and systematic statistical discrepancies introduced by the chain linking method of calculation of volume accounts.

systematically consistent national accounts tables, with not one single statistical discrepancy, would be another unhelpful extreme.

While users indeed need consistent statistics, they should not be cheated on their quality. Paradoxically, at the present stage of the production of economic statistics, to present totally integrated statistics, that is exactly consistent tables for all statistics, national accounts, balance of payments, short-term or structural economic statistics, would be more the sign of a lack of statistics than of an excellent statistical system. National accounts do not give confidence intervals for their data, because it is impossible to calculate. However, the presentation of national accounts tables should not lead users to forget about the complexity and challenge of building them. In this context, a statistical discrepancy can be an interesting measure for users to judge the solidity of the message shown by the movement of the national accounts aggregates (GDP, General Government Deficit or other main aggregates). Revisions of national accounts are also there to remind users of these difficulties.

Real integration needs integration at production level

Chapter 5 of the report on Integrated Economic Statistics is particularly welcome, insisting on the fact that integration should address all stages of the production process, from design of the collection system to the compilation and dissemination of data.

To go from a conceptually integrated system such as the SNA to a practically integrated system is a long term project and will demand integration in the production of primary statistics. This is the priority objective that Eurostat has given to the European Statistical System through its 2009 Communication to the European Parliament and the European Council on the production method of EU statistics ("a vision for the new decade"). The following paragraphs are extracted from this communication.

At present, the business architecture of most of the EU NSIs is still mainly based on a product "stovepipe" model. In such a model, every single product stovepipe corresponds to a specific domain of statistics, together with the corresponding production system. For each domain, the whole production process from survey design over data collection and processing to dissemination takes place independently of other domains, and each has its own data suppliers and user groups.

The stovepipe model is the outcome of a long historic process in which statistics in individual domains have developed independently from each other. It has a number of advantages: the production processes are best adapted to the corresponding products; it is flexible in that it can adapt quickly to relatively minor changes in the underlying phenomena that the data describe; it is under the control of the domain manager and it results in a low-risk business architecture, as a problem in one of the production processes should normally not affect the rest of the production. From a European perspective it has the advantage that it can be addressed by a relatively limited and specific Regulation.

However, the stovepipe model also has a number of disadvantages. First, it imposes an unnecessarily heavy burden on respondents. Given that the collection of data in different domains is done in an independent and uncoordinated manner, respondents are regularly asked for the same information more than once. Second, the stovepipe model is not well adapted to collect data on phenomena that cover multiple dimensions, such as globalisation or climate change. Third, this way of production is highly inefficient and costly, as it does not

make use of standardisation between areas and collaboration between Member States. Redundancies and duplication of work, be it in development, in production or in dissemination processes are unavoidable. These inefficiencies and costs for the production of national data are further amplified when it comes to collecting and integrating regional data, which are indispensible for the design, monitoring and evaluation of some EU policies. Last but not least, it does not allow for an integrated approach in the compilation of macro-economic statistics.

The strategy for the European Statistical System will imply replacing the stovepipe model with an integrated model. The various disadvantages of the stovepipe model can be adequately avoided through the integration of data sets and by combining data from different sources (see box for example in business statistics). At the level of the NSIs, statistics for specific domains are then no longer produced independently from each other; instead they are produced as integrated parts of comprehensive production systems (the so-called data warehouse approach) for clusters of statistics. These systems would be based on a common (technical) infrastructure, they would apply as far as possible standardised software, and they would make use of all available data sources which are appropriate in quality. One essential feature of this integration is the strong recommendation to NSIs to use administrative data wherever possible in place of surveys. The report on Integrated economic statistics could discuss more the use of administrative data.

The example of business statistics

The following is an example of a real-life worst-case situation that results from the current stovepipe production model. A company with 200 persons employed produces parts for the automobile industry. In the beginning of each year it submits two surveys used for Structural Business Statistics. They cover turnover, purchases of goods and services, operating surplus, employment, personnel costs and investments. It also submits data on its use of energy for energy statistics. It reports monthly on its trade inside the EU (Intrastat) in value and volume. It also submits monthly reports on its business trends for Short term statistic (turnover, employment, new orders). It reports monthly on its production of goods in value and volume. For each separate data collection, it has to provide the same information on certain basic company features such as turnover. In an integrated system, many of these data could be obtained from existing administrative data and/or extracted directly from company accounts. For the remainder, one monthly survey should suffice to gather the information that cannot be collected otherwise. The integrated model is based on the fact that governments collect data for many non statistical purposes, such as tax and labour market policies. Efficiency gains can be obtained by the re-use of these administrative data for statistical purposes. Also data from other (external) sources can contribute to this, e.g. through the use of private information providers or the direct use of accounting data from companies. But efforts are needed to ensure the quality of the data, because very often the administrative and other external data are not available in the form needed for statistics.

As an optimal solution, it would be highly efficient for Member States of the EU to create a network of databases, from which any relevant information could be extracted. As such a solution can only be fully implemented in the long term, it is proposed to link data at the micro-data level in the medium term. Micro-data linking is an important tool not only for the purpose of burden reduction, but also to have better comparable data sets. This process should also provide an opportunity to extend and better exploit the statistical information which is available at the regional level and hence would significantly contribute to improve

the scope and the quality of regional data. In the short term, the close cooperation within the ESS, as well as the establishment and development of joint structures, tools and processes through collaborative networks, should put the ESS business architecture on the right track towards its long-term goals.

This communication has been followed up by a joint strategy paper presented at the European Statistical System Committee meeting of May 2010, which has laid down ten principles for the implementation of the vision paper. The integration envisaged in the joint strategy will require more harmonisation and standardisation of statistical methodologies for data collection, data validation, dissemination and communication within the European Statistical System, access to micro data for researchers, harmonising the IT infrastructure and sharing IT tools. A "sponsorship on standardisation" has been launched, as well as a "sponsorship on quality".

Integration at international level is a necessity for the EU

The report on Integrated Economic Statistics essentially addresses itself to national statistical offices. Integrated economic statistics are necessary for economic policy needs at country level. But the EU is itself a specific case. The Euro area has a single monetary policy and thus needs appropriate timely macro statistics. More and more, there is the need for a coordination of budgetary policies of all the Member states. In this respect, integration in economic statistics is needed also at Euro area and at EU level.

Through its special regulatory powers applied on statistics, the European Union, its Commission and Member countries participate in an extremely strong standardisation of statistics, probably not comparable to any other group of countries. Statistical regulations cover all domains of statistics, and most notably the basic foundations of statistics, such as classifications, registers, questionnaires, methods of seasonal adjustment, detailed agricultural statistics, population censuses, etc. This standardisation is an essential tool for integration at EU level.

In order to produce European statistics, Eurostat compiles the data coming from individual NSIs also area by area. The same product stovepipe model thus exists in Eurostat, where the harmonised data in a particular statistical domain are aggregated to produce European statistics in that domain. The traditional approach for the production of European statistics based on the stovepipe model can thus be labelled as an "augmented" stovepipe model, in that the European level is added to the national level.

It is therefore the intention of Eurostat to, building on the progress of integration at national level, move towards the integration at EU level. Concrete projects are already put in place, such as the creation of a unique register for enterprise groups (ERG, European Register of Groups), which is closely coordinated with the ECB's RIAD (Register of financial institutions). The compilation of a complete set of quarterly sector accounts for the Euroarea is also a concrete and successful example of integration between financial and non financial data at international level. The objective of Eurostat is, in cooperation with the ECB, to publish these quarterly sector accounts at Q+90 days. This will be an important achievement in the direction of integration at international level.