



High Level Forum
Globalization and Global Crisis:
The Role of Official Statistics
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**Globalization and the Global Economic Crisis: The Role
of Official Statistics**

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Opening remarks by Rob Vos, Director of Development Policy Analysis,

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The 40th session of the Statistical Commission comes at a particularly crucial time, when the world is mired in its **worst recession since the 1930s**. The rapidly unfolding global financial and economic crisis will severely disrupt economic growth worldwide and endanger progress towards achievement of the MDGs and other internationally agreed development goals. The ILO estimates that as many as 50 million jobs may be lost in developing countries in 2009 and the UN's pessimistic global forecast sees negative per capita income growth in Africa and Latin America for the year, putting the livelihoods of billions at stake. Problems have not bottomed out yet. **Unless effective and immediate global concerted action is taken**, there will be rapidly rising unemployment and poverty. This will confront countries with increased social needs, but decreases in government revenues will provide them with fewer resources to meet those needs. **Failure to meet those social demands**, while trillions are spent on financial sector bailouts, could well **trigger devastating social tensions**. Failing to do so may also impair the sense of global solidarity, making agreement on other key global issues more difficult, such as responding to the challenges of climate change.

The crisis and the vast amounts of public resources that will be needed to combat the crisis will have substantial distributional consequences. If the measures do not take visible impact within a reasonable time horizon and tax payers are insufficiently informed of how resources are being used, this likely will lead to increasing social discontent. There is thus an important role for statistics to play in:

- monitoring the vast social economic and social consequences of this crisis;
- measuring the massive worldwide redistribution of income and wealth the crisis is causing;
- identifying the impact on the poor and vulnerable;
- in making governments accountable for the massive fiscal stimulus and financial sector bailouts and how the costs of these will be distributed; and
- for future prevention: they should provide better insight in vulnerabilities in the global economy and financial markets to serve as early warning systems.

Let me get back to some of these challenges in a minute and stress first the importance of the 40th Session of the Commission as it will adopt the System of National Accounts 2008. This is a major achievement of many years of collaborative efforts of the statistical community. The SNA has provided a common framework for measuring economic activities for over half a century.

The statistical community has made tremendous progress in refining techniques and expanding data coverage.

However, significant challenges remain. Those I just outlined are but a few of them. There are also important outstanding challenges in the measurement of the basic concept of economic and social progress, especially the measurement of well-being. As you know, GDP (gross domestic product) was never meant to be a measure of well-being, as national accounting pioneer, Nobel laureate Simon Kuznets, warned us during the years of the Great Depression:

"The welfare of a nation can scarcely be inferred from a measure of national income. If the GDP is up, why is America down? Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what".¹

Unfortunately, that warning of more than 70 years ago is still a major concern today. Governments still mainly use GDP growth figures to claim success. We seem to have forgotten - - 'growth for what'?

When world food and energy prices were rising and stock markets were booming, the world was also experiencing rapid economic growth which also benefited developing countries.² Ironically, the rapid acceleration in the rise of food and energy prices³ pushed hundreds of millions into poverty.⁴ Meanwhile, the roar of bull runs in stock markets deafened the warnings of an impending financial crisis, including those we made at the United Nations in our World Economic Situation and Prospects reports of the past few years.

The limitations of GDP as a measure of well-being are well known.⁵ There are other problems such as the failure to account for irretrievable loss of bio-diversity, destruction of cultural variety and so on. National accounts give zero value to vital ecological assets: clean air, water and biodiversity, as well as to having healthy, literate and productive citizens and to unpaid care

¹ Report to the US Congress in 1934

² Gamaut, Ross (2008) "Will Climate Change Bring an End to the Platinum Age?", *Asia Pacific Economic Literature*, 22 (1). The term "Platinum Age" underscores that recent economic growth has been even higher than the average during the "Golden Age" of the 1950s and 1960s.

³ Although energy and food prices have fallen sharply, they are still higher than before.

⁴ According to World Bank estimates, the food and energy price hikes increased the global poverty headcount by as much as 155 million people in 2007. The predicted decline of the world economy in 2009 by between -0.5% and -1.0% is likely to add another 60 million to the ranks of the poor in developing countries. This is based on the World Bank's 2005 PPP international poverty line – \$1.25 dollars a day – and on the parametric assumption that a decline of growth of by 1% adds 20 million to the ranks of the poor. Sources: World Bank (2008a) *Global Economic Prospects 2009*, Washington D.C. World Bank (2008b) 'Trade is Key to Overcome Crisis', *News and Broadcast*, December 1

⁵ The *Financial Times*, January 29 2009, recognizes the problem:

"Even properly measured, not all production makes us better off. Some parts of GDP – weapons, prisons and 24-year-old derivatives analysts come to mind – rather reflect production it would be good to have less of. More opulence is worth little if it benefits only those at the top. Then there are values besides wealth. For instance, with each rise in GDP we forgo enjoying the same productivity growth as leisure time", "De-fetishising GDP".

work (raising children, maintaining households, caring for the sick and elderly, volunteer work, etc.) which accounts for about half of all activity, even in industrial societies.⁶

The relationship between economic growth -- as measured by GDP -- and other dimensions of environmentally and socially sustainable development is clearly not straightforward. For example, a country may grow faster by exhausting non-renewable natural resources or by requiring people to work longer hours.

Furthermore, also the long-held assumption of a link between economic growth and elements of well-being (such being healthy, having a decent job, and employment, poverty) is anything but straightforward. The recent period of rapid global growth up to 2007, which some have called the “platinum age”, in fact did not produce a commensurate growth of employment, let alone of decent work opportunities, leading others to coin this rather an era of “jobless growth”.

It is equally important to note that the past decades have also been characterized by a rapid rise in inequality of both income and wealth worldwide. Furthermore, the growth of income and wealth has often been at the expense of leisure and the quality of life. Not surprisingly then, people are increasingly sceptical of the usefulness of our basic economic statistics.

Employment and unemployment statistics can be also problematic. One is recorded as employed even if he or she works only for a minimal period of time (e.g. one hour in the reference week) with little reference to what is needed to survive, let alone for a decent living. Thus, it is not surprising that the relationship between official unemployment rates and poverty levels tends to be very weak in many developing country contexts.

By many accounts, the steep rise in food and energy prices in 2007 and 2008 had a disproportionate impact on the poor, which highlights the need to go beyond national averages of headline inflation. It has made clear that we should develop price indices for different social groups with different consumption baskets. Such subsets of consumer price indices are not readily available in most countries, but could be made available at moderate cost.

In short, there are two main problems with the current definitions and measures even of the most basic economic statistics. First, the gaps between the standard measures and public perceptions

⁶ Perhaps it would be pertinent here to quote Robert Kennedy:

“The Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them... It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl... Yet the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials... it measures everything, in short, except that which makes life worthwhile”. Remarks by Robert F. Kennedy at the University of Kansas, 18 March 1968 taken from a transcript at the John F. Kennedy Presidential Library & Museum.
<http://www.jfklibrary.org/Historical+Resources/Archives/Reference+Desk/Speeches/RFK/RFKSpeech68Mar18UKansas.htm>

of well-being seem to be large and growing. Second, these gaps may lead to inappropriate policy action and, as I mentioned at the beginning of my presentation, be a source of social discontent.

A period of crisis is always a time for awakening. One of major concern, but also it is one of new opportunity. I am sure, you are aware of some encouraging initiatives currently underway to address some of the issues highlighted earlier.⁷ A number of European countries have already taken initiatives to explore methodologies to improve the measures of progress, wealth and well-being.

The French President Sarkozy has appointed a commission, led by Nobel price winners Joseph Stiglitz and Amartya Sen,⁸ which has been reviewing alternative indicators while debating three main issues: how to improve standard GDP measures; how to incorporate new measures of economic, social and environmental sustainability into the data; and what new indicators would better assess the quality of life.

The Sen-Stiglitz report is bound to generate a lot of interest and intense debate. No one expects the statistical community to have ready-made answers to all these questions, but the crisis stresses the urgency to make significant improvements.⁹

Today's discussion correctly focuses attention on challenges posed by globalisation and the current global crisis. In trade statistics, challenges have been posed by the recent exponential growth of the components trade in global supply chains and increased transfer pricing to reduce tax liability.

Capital account liberalisation and recent fears of terrorist financing have drawn greater attention to cross-border financial transactions, while declining tax revenues and diminished fiscal capacities have focused interest on the role of tax-havens and inter-country tax competition.

After each recent crisis, some pundits will claim that improved data reporting or transparency will ensure early warning systems.¹⁰ This too will clearly pose new and challenging demands on the kind of data we gather and present.

⁷ They include the 'Istanbul declaration' by representatives of the EC, OECD, OIC, UN, UNDP and the World Bank in June 2007, and the joint conference, "Beyond GDP", of the European Union, European Parliament, the Club of Rome, WWF and OECD in November 2007. The 'Istanbul declaration' states that:

"We, the representatives of the European Commission, the Organisation for Economic Cooperation and Development, the Organisation of the Islamic Conference, the United Nations, the United Nations Development Programme and the World Bank, recognise that while our societies have become more complex, they are more closely linked than ever. Yet they retain differences in history, culture, and in economic and social development. We are encouraged that initiatives to measure societal progress through statistical indicators have been launched in several countries and on all continents. Although these initiatives are based on different methodologies, cultural and intellectual paradigms, and degrees of involvement of key stakeholders, they reveal an emerging consensus on the need to undertake the measurement of societal progress in every country, going beyond conventional economic measures such as GDP per capita."

⁸ Chaired by Nobel Laureate Joseph Stiglitz and advised by another Nobel Laureate Amartya Sen,

⁹ Two other Nobel Laureates who have contributed to the development of a system of national accounting are Richard Stone and James Meade. Another significant contributor was Colin Clarke.

In this sense, designing more elaborate macroeconomic accounts should be a first priority. The present crisis has clearly demonstrated that financial stability indicators should reflect the interconnections between banks and other financial institutions, on the one hand, and between the financial sectors, the non-financial sectors and the rest of the world, on the other. This will require a much more detailed specification of balance sheets of financial and non-financial institutions in the SNA in order to better capture the complexity of the array financial instruments, as well as the use of off-balance sheet transactions as vehicles to disperse risks nationally and internationally. In order to obtain better insights in positions and exposures, attention should turn to the understanding of the new structured products by geographical breakdown and composition in terms of sector, maturity and foreign currency and ultimate owners of risk.

Such additional detail in presenting balance sheets should ease the identification of currency mismatches that pose vulnerability of financial systems to exchange-rate shocks, the identification of maturity mismatches to signal limitations in rolling over debt to stave off solvency risks, and the identification of emerging asset market bubbles.

This should not only be confined to financial institutions and the business sector. Much more statistical research is also needed to improve the elaboration of the integrated household accounts connecting household income, consumption and wealth to support a broader range of measures of well being, distribution, poverty and the environment.

Such integrated accounts should also not only serve to gain better insight into wealth transfers between businesses, the government sector and households, but it should also support the analysis of distributional consequences of asset price adjustments, bailouts and restructurings of bad debts, and so on. Tax payers have a right to hold their government accountable and know how and to what extent the massive bailouts of the financial sector will affect their wealth and income, today and in the future. And as governments move towards promoting investment in green technologies, we need to be able to monitor closely whether efforts are sufficient for the world to shift towards a sustainable pattern of economic growth.

The Great Depression and the devastation of World War II provided the impetus for developing a system for national accounts which policy makers used for rebuilding the world economy and ensuring full employment in subsequent decades.

Similarly, I hope that the current multiple crises will propel you to address the challenges I have outlined and make further significant progress in developing an integrated system of accounts with readily understandable and meaningful indicators to help policy makers to find adequate solutions to overcoming these crises and ensure a better future for all.

¹⁰ At the risk of sounding very immodest, the United Nations secretariat publication, *World Economic Situation and Prospects* (WESP), has made fairly accurate forecasts. It warned early on that unsustainable global imbalances, credit and asset price bubbles as well as international financial deregulation would inevitably cause a global financial crisis which would lead to a major recession.