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HOW TO DESIGN SOUND POLICIES WITHOUT STATISTICAL DATA!

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ABSTRACT

Today, with the growing and complicating economic activities, the need to strengthen the factual and analytical basis for policy making is more evident. However, the lack of both reliable and internationally comparable data and statistics on which analytical work can be based raises difficulties for policy makers designing sound economic policies. If so, is there a way to make decisions in an informed manner without significant statistical data? The answer is a strict NO, as long as the unreleased empirical evidence does not go well with the facts, by coincidence of course.

The lack of an empirical foundation is particularly marked in assessing the impact of economic forces in developing economies. Turkey, probably the best-recent case for programme oriented economic recovery, has been undergoing some serious transformation over the past three years. These structural changes took place according to an economic program that is supported by the IMF but also all the changes in the legislation concerning economic life were subject to being in accordance with EU norms and regulations.

Preserving the improvements in Turkey's macro and financial fundamentals -through sound macroeconomic policies- keeps its priority. Forthcoming policies should intend to improve the resilience of the economy and to maintain current achievements. However, further achievements require fine-tuned calibrations based on longitudinal analyses, rather than rough designs for downsizing the adversities that are already large-scaled. Now, the inflation rate in Turkey converges to single-digit figures, approximately 60 points down from 3-years before, and high economic growth continues for ten quarters without a break. In today's rapidly changing economic environment, the production, consumption and employment structure of Turkey exhibits a rapid transformation. It is crucial to attune with this transformation and wisely fill in the gaps emerging from it, with a development strategy carefully set on comprehensive, trustworthy and comprehensible information.

This paper advocates the need for developing a comprehensive and comparable indicator system with "true" information. Sharing this information with the business community and allowing them to perceive the "time inconsistency" within the policy implementations is the only way to achieve policy credibility.

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i) Turkey is a good case study

How a businessman takes investment decisions, plans production level and prices his/her products? The answer is clear: according to market signals. Thus accurate and timely data concerning the business life is a key element for decision making.

- √ But how an entrepreneur decides for an automobile plant if the figures for motor vehicles display a difference of 1.4 million between the two official bodies disclosing that figure?
- √ Suppose you are looking for a land to build up your factory but the forestry land registry is still uncompleted after 67 years.
- √ How can you choose a region to relocate your plant if you do not have any figures on regional basis?

This list can easily be extended. But lack of proper statistical data did not upset Turkish businessmen; even Turkish private sector miraculously performed in global competition. How come? Let me give the answer to my question of “How to design sound economic policies without statistical data?” The answer is that Turkey lacked sound economic policies. And unavailability of statistical data did not pose much problem up to now. However, nowadays the circumstances change totally. Now Turkey has sound economic policies and of course, both the business sector and the government alike now in desperate need of accurate and timely data.

Let me talk on recent developments in Turkish economy to exhibit the changing circumstances in economic framework. Later on I would like to explore data availability problems in Turkey.

ii) Changes in economic framework in Turkey

Globalisation is not a new concept anymore. Today’s economies have to take into account expanding globalisation in their decisions of economic, social and environmental policies. This is both because of the increasing number of international agreements ranging from environmental protection to international trade, abuse of child labour to intellectual property rights on the one hand and the new opportunities in information and communication technologies which enable citizens to judge the appropriateness of policies more easily.

The use of evidence-based decisions is considered to be the most effective, proportionate, transparent, accountable and accessible way of policy development. But it also requires some kind of comparable common indicators or information and experience sharing platforms.

The position of the countries will be more powerful with the development of communication technology and information network resulting in rapid globalisation and interdependence of the world economy. Accurate and reliable data as well as rapid and continuous information flows have gained importance in dealing with problems that mankind confronts in social, economic and political matters. The importance of sound official statistics is not simply confined to the national political and economic arenas. The financial crises in emerging market countries over the last three years demonstrate that the international community too has a legitimate interest in the quality of statistical outputs from individual nations. Globalisation has reinforced this fact, especially the expansion of international capital markets during past

decades. The need for the “reliable” information in Turkey, on the other hand, came in sight with the demand of gaining benefits from the new global economic setting.

Turkey has been undergoing some serious transformation over the past three years. Besides the progress on the lines of meeting Copenhagen political criteria for democratisation and rule of law, a precondition for the beginning of membership negotiations, the economic fundamentals exhibit an outspoken improvement. A brief glance at Turkey’s macroeconomic performance since the economic and financial crises of 2001 clearly illustrates the success in improving the economy’s resilience:

Turkey succeeded in combating high and chronic inflation and brought it down from more than 70% at the beginning of 2002 to less than 10% within a time span of about two years. The economy grew strongly out of the slump. In 2002 and 2003, GDP grew by some 6.5% on average, well above Turkey’s long-term growth average of 4.5%. The positive economic environment having been sustained, improvement in all indicators and expectations continue. The initial data regarding the first half of 2004 also justifies the continuation of “low inflation-high growth” path. The Turkish economy grew by 13.5% in the first half of this year, which puts Turkey one of the fastest growing countries of this year. These improvements in Turkey’s macro and financial fundamentals took place as a result of sound macroeconomic policies and extensive structural reforms. The privatisation efforts, abolishing the barriers to enter for network industries and natural monopolies, constructing regulatory authorities, agricultural reform etc. are all processes that change the face of Turkish economy.

In fact, the improvements in Turkey’s macro and financial fundamentals took place as a result of sound macroeconomic policies and extensive structural reforms. The policy designs took place according to an economic program that is supported by the IMF and also all the changes in the legislation concerning economic life were subject to being in accordance with EU norms and regulations.

It is true that, in the past there had been times when Turkey exhibited miracles but was not able to sustain them. In 1993, the growth rate was 8% but in 1994 it was -6%, in 2000 the economy grew by 6% but in 2001 the rate fell down to -9.5%. The long-term growth rate averaged 4.5% after all these swings in the economy. So it is quite understandable to think of Turkey’s recent performance again as a temporary one. However, the recent transformations over the past three years have changes the fundamentals of Turkey permanently. In the third quarter of 2001, the growth rate was a minus 12.3%. Since then the country is growing rapidly. And it is the first time that growth is sustained for 10 quarters. That high growth also coincides with a fall in the rate of inflation. There is a paradigm shift in Turkey and the proofs of this are already clear.

Demographic transformation coincides with this paradigm shift. Since the foundation of Republic of Turkey in 1923, the population has increased almost five folds. However, this trend of rapid population growth has now reversed and steadily converges towards to the EU levels. The population growth rate was 1.4% in 2003, and is expected to fall near zero in 2050. On the other hand, Turkey’s population is projected to stabilize at the level of approximately 80 millions, around 2015. The size of the adult population, in other words, “the potential active labour force” is projected to increase at a constant rate over the next two decades on contrary to developed countries, still offering the “window of demographic opportunities.” Besides, productivity growth continues its acceleration, boosting this demographic transformation. In line with the Southeast Asia experience, in period of stabilized population growth and increasing labour supply, per capita and welfare may improve significantly with the right policy setting.

iii) No map, just a broken compass...

Just as companies must compete on a global level for resources and markets, so must countries. Given the economic transformation, Turkey is ready for global competition. Turkey has to take advantage of the new economic setting and maximise its competitive advantages that will take the nation forward. It is crucial to attune with this economic transformation and wisely fill in the gaps emerging from it. In today's rapidly changing economic environment, the production, consumption and employment structure of Turkey exhibits a rapid transformation. To make best use of this transformation on economic structures, the need for a development strategy carefully set on comprehensive, trustworthy and comprehensible information is felt more than ever. The current and upcoming global developments, technological and scientific improvements, interaction within sectors, and needs arising from social transformation are to be monitored closely. Economic policies appropriate for increasing Turkey's competitiveness should be built on a factual and analytical basis. Unfortunately, access to quality information in Turkey does not match the needs so far.

An obstacle for sound economic policies is the size of unregistered economy. The unrecorded economy in Turkey accounts for almost half of the whole economy. This figure is an important indicator for the quality of statistical information. In addition to the unrecorded economy there are various examples of poor data quality. National accounts with SNA (System of National Accounts) 93 classification, problematic and incomparable balance of payments methodology, inflation indices with old baskets and aged base prices, and the old fashion censuses and poorly filled in surveys, constitute examples of problems in information contained in statistical data. Besides the quality problem, there is also the availability problem. Price indices on sectors, regional business statistics, capital stock statistics, time series for various indicators are some of the indicators that are not available. However, the true problem in Turkey, is not the availability of statistics but rather the quality of information they involve and the possibility to access to that information. Huge amount of information is collected by the State Institute of Statistics, the governmental agency responsible for gathering and publishing statistics in Turkey. However, there are serious methodological problems in processing that information. This is mostly the result of lack of sufficient funds allocated for that purpose. And the result is that, the information cannot be put in a data base that is long enough for a time series data and appropriate for international comparison. The access to information is also limited because of the law on State Institute of Statistics. Although SIS collects valuable information on plant level, the researchers and the business community can not access to most of the regional data and industry and services statistics.

For sure, the lack of both reliable and internationally comparable data and statistics on which analytical work can be based raises difficulties for policy makers designing sound economic policies. The lack of a sound empirical data base is also an important obstacle for the business sector in Turkey. For now with the new era in the Turkish economy, the reliable information is the most critical source for effective decision-making for both the government and the private sector. Unfortunately, there exist no reliable industrial data base, and this deficiency is definitely causes an important problem for private sector's economic decisions such as production, new investment projects, or say, pricing strategy. In other words, the inaccurate macroeconomic data is like a "broken compass" which makes difficult, if not impossible, to formulate sound economic policies. And the lack of industrial data base, this time just like a "map", makes the picture for business decision making obscure. Without a compass and a map, the Turkish businessmen so far made a miracle to find their ways.

In fact, State Institute of Statistics (SIS) is well aware of this data problem. Along with the need for the "proper" information, SIS is continuing its studies for improving the data capacity and quality, as well as the bringing statistical information to international standards. National accounts are being adjusted to ESA (European System of Accounts) 95 standards, balance of payments methodology is being revised with the IMF's Balance of Payments Handbook, and basket of goods and services, their weights and base

prices for measuring the inflation are being restored. The SIS also undertakes an intense work on industrial records. Value added in each sub sector, their employment levels and productivity thresholds, interaction within the sectors, and various other production indicator are being improved and updated. Both completed and ongoing international statistical projects aim the harmonisation of methodology, definitions, classifications, and standards. When completed, these projects, will yield timely, good quality and internationally comparable statistics in a number of areas including business statistics according to EU standards, agricultural statistics, regional statistics and indicators according to NUTS classifications, These projects will bring better availability of and faster access to statistical information but will also contribute to increased know-how on statistical standards methods and indicators.

Thus, availability of “proper” information will be crucial to improve business decisions. Benefiting from comprehensive, trustworthy and comprehensible information will enable Turkey to seize not only the present conjuncture but also the current and upcoming global developments, technological and scientific movements, interaction within sectors, needs arising from social transformation. The efforts to comply with international standards and norms on the main statistical domains create a room for policy makers designing sound economic policies. Reliable and internationally comparable data and statistics -on which analytical work can be based will constitute strong empirical evidence for economic policies which in turn increase the credibility of economic policies.

Thus, the private sector and the government officials in charge of economic policies can survive without any reliable information under conditions of high volatility which obscures economic activity; but for a take of, there is no way to design sound economic policies without statistical data.