Yves Mersch: Society forming changes and their impact on information needs

Speech by Mr Yves Mersch, Governor of the Central Bank of Luxembourg, at the 2007 EUROSTAT Conference "Modern Statistics for Modern Society", Luxembourg, 7 December 2007.

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In 1999 the late Eugenio Domingo Solans gave a speech in Luxembourg during which he insisted on the importance of good statistics for the conduct of monetary policy. Since then euro area statistics have considerably improved and yet, as users of statistics, we are constantly requesting improvements of existing statistics or even the establishment of new requirements.

So, are we users just experts in statistical harassment, as one may say, or are we modifying our data requests because we need to do so?

I strongly believe that we need to do so because of the non-static nature of our modern societies and the necessity to dispose of statistical data describing the underlying nature of the changes to the stakeholders. Indeed, the economy that statistics are supposed to cover is changing at an impressive speed and should statistics be useful, then they have to keep up with the pace and adapt to the changing environment.

According to this view, one of the important roles of statistics is to provide policy makers with data and tools necessary to assess the level of uncertainties and to provide common reference points when entering decision-making processes. Only by using statistical data are we able to clear the view and guess what is the best way forward thus optimizing the rules versus discretion trade-off. So, statistical data collection, compilation and dissemination is not an aim in itself but a necessity to achieve, and share, an efficient decision-making process at all levels of society.

But, what are these changes that impact our need for information?

Commissioner Almunia has already provided some important definitions concerning modern society and modern statistics. I would like to emphasis some factors requiring changes to our societies today which find their origin in:

- political and institutional changes
- economical and financial evolution
- exogenous factors

Political and institutional changes

During the last 50 years, the institutional set up has been subject to various changes such as the creation of the IMF, the EEC, the OECD etc. Most of these new bodies required new types of data compared with the data needed by previous institutions. The most recent examples are the introduction of the single European currency and the creation of the European Central Bank (ECB) which are at the start of new information needs. Indeed, monetary policy is almost impossible without good statistics. Therefore, once European States had decided to go in the direction of a Monetary Union, the point was not only to put some people together in a room to take decisions but to enable that group of people to take good and transparent decisions. In view of the different cultural backgrounds, different operational and institutional frameworks were underpinned by different data requirements. With a common policy making-set-up what would be the statistical adjustment requirement? The only way forward was to establish a common framework for existing statistics as well as

developing a set of new statistics. This work started well before the start of Monetary Union and there still remains room for improvement. In this regard, I would like to highlight the important work done by the European system of statistics.

So, faced with a new type of user requirements (i.e. monetary policy for what is at present a monetary union of soon 13 countries), the European Statistical System (ESS) and the European System of Central Banks (ESCB) statistical services successfully established the needed statistical framework. It was therefore important to define a set of harmonised data to be collected by the respective national authorities, be they central banks or national statistical institutes, in all of the euro area member countries.

At the same time it should be highlighted that most of these national institutions already collected data for their own national needs and that the development of the euro-zone statistical needs did not necessarily offset the national statistical requirements designed for and evolved in a national policy-making environment. In this regard, it may be pointed out that part of the existing national and euro area statistical needs are unfortunately not totally coherent reflecting the transfer of monetary policy making to the higher European level while retaining other areas of economic policy at the national level. In this regard, I strongly urge users of statistics i.e. policy makers as well as compilers to reflect on the fact that reacting to changing societies does not only imply the development of new statistics but also a strong reflection on the need to maintain currently available “old” statistics. This phenomenon probably reflects the inertia of existing institutions and the resistance of national bureaucracies to transferring competences to the supranational level.

Very often these needs are defined without consultation of other institutions already collecting data, or there is consultation, but minor differences concerning the data needs used to collect different sets of data persist. What would be better would be to try to overcome these differences and to collect a single set. A single set might not be perfect for all the regulators concerned but it would be adequate and cost less.

Economic and financial evolution

During the debt crisis in Latin America in the late 1980's, most of the actors involved had to accept the fact that they had been surprised by the crisis. In the aftermath of the crisis, the IMF decided to introduce a new data standard, the Special Data Dissemination Standard, in order to collect additional information on the situation of its member countries and to publish this information much faster than it had been done in the past. This new data requirement was felt necessary since it is supposed to better inform economic actors and therefore create an early warning system for financial crises.

The “new economy” and its important productivity gains due to information technologies generated the need for more detailed data concerning prices – for instance Hedonic prices to capture ever faster changes.

The present crisis in the American mortgage market will also call for additional information.

Indeed financial innovation supposed to spread risk and thus liberate capital and increase liquidity was found not to be stress resistant. Credit risk transfer with increased complexity and dissemination in parallel decreased both access to information and the exercise of due diligence.

The lack of transparency triggered a wave of mistrust impairing the proper functioning of whole segments of financial markets.

It had been expected that the generalized phenomenon of the mispricing of assets had its origin in some institutional developments such as Hedge funds or Private equity and increased disclosure was requested in this direction. However, the unfolding of the turbulence identifies a lack of transparency associated with the “originate and distribute” model, the role of rating agencies and the limits to the supervisory boundaries.

The foreseeable response will be more disclosure, better information and increased statistical coverage. In all, greater transparency.

Exogenous factors

The terrorist attacks on 11 September 2001 were also at the beginning of additional information needs.

In the recent past, the US customs have requested more private information from people travelling into the USA and most countries are now introducing new biometric passports.

In the same vein, the United-States, in the war against terror, requested as much information as possible about financial transactions in order to reduce the financing of terrorists. Hence, they obtained access to additional and mainly very confidential information on financial transactions worldwide through SWIFT.

Where is the end?

Will we continuously increase data needs or are there limits?

There are at least two limits.

- data production generates costs

  The increasing data requests on the part of regulators generate increased production costs and therefore decreases competitiveness.

- privacy concerns

  Access to more detailed data going as far as the data collected through SIWFT in foreign jurisdiction raises concerns about privacy. Indeed, regulators and authorities nowadays have access to more detailed information about individuals through various databases established for taxation, war against terror, business statistics etc. Not only is there a risk that we collect too detailed and confidential information but also that these databases are interlinked. The constitutional checks and balances have to be adjusted to these developments as well as our consensus concerning the rights of an individual versus the rights of society as a whole.

Conclusion

The essential question is to know whether all these data requests are really necessary.

Indeed, is it necessary to collect so much specific and detailed data?

I think that is not the case and there are several possible ways forward in order to reduce the associated reporting burden.

- Better cooperation between regulators and the political will to abandon some very specific and detailed requests made by a single regulator in order to build up common needs and data requests.
- Collect more appropriate data: when introducing new data requests, statisticians should review their needs in order to abandon those that are not important in order to maintain the burden at an appropriate level and avoid increasing it constantly. It should be said that policy makers must also accept a certain loss of detailed information since policy makers are the driving force behind the data requests.
- Collect the important information and derive details on the basis of less frequent surveys.

Thank you for your attention.