

OECD Forum 2003, 28th-29th April 2003

Centre de Conférences International, Paris, France

Summary by Celia Russell, International Data Service, MIMAS

The OECD Forum is an annual event organised by the organisation for Economic Cooperation and Development (OECD), an intergovernmental group of thirty of the world's major economies. This year around 1,200 people attended from 48 countries.

The purpose of the forum is bring together representatives from governmental, non-governmental, academic and business organisations to examine a range of issues relating to the development of the global economy, and included a session on macro-economic statistics in the afternoon of the first day. The conference was attended by many of the organisations and people working with MIMAS to develop the new International Data Service.

[Detailed notes on the Economic Statistics Session](#)

[Summary of Main Points in Other Sessions](#)

Economics Growth – What statistics do and do not tell us

Simon Briscoe, Statistics Editor of the Financial Times

Gross Domestic Product (GDP) is a measure of a country's total economic activity and is the most frequently cited indicator of growth. GDP measures form the basis of national economic policy formation. (For example, the contribution paid to the EU by member countries is based on GDP). However, GDP figures are complex aggregates and there are problems in measuring them in nominal terms. These include:

- Measuring labour: how do we estimate the overall level of work coherently?
- The non-observed economy (the black economy), which by its very nature tries to escape detection by the authorities
- Definition of investment – there are problems comparing different countries as in practice the way investments are calculated are not comparable
- Services account for 70-80% of GDP in OECD countries. Prices for services are not well developed or measured and the basic statistics are less developed than for manufacturing. Measuring the value-added of services remains a problem e.g. in financial services how do we measure the value added of banking etc?
- investment is extremely difficult to quantify;
- how do we measure public sector services in real terms?
- How do we measure human capital?

Keith Hall Chief Economist, Department of Commerce, United States.

Economics changes very quickly and we now need to discuss new ways of measuring growth. For example, the information technology and communication (ITC) sector account for 8% of US GDP but was responsible for the high growth of one percentage point.

We need to improve service sector data, which today represents a very significant share of the economy, yet we know little about it. The US Census Bureau's first new indicator in over 40 years is a quarterly figure designed to provide more information on key ICT industries. Also, trade data must be improved and he estimated that the under-coverage of these data is about 3-10%.

How does ITC investment affect business? Currently businesses are classified by the underlying process, but ITC changes these processes e.g. inventory management. This requires prices on LANs, computer security systems etc.

He also described an innovative supply chain study currently under way in the US which attempts to cope with a constantly changing economic environment.

Rolond Spant, Chief Economist, Swedish Confederation of Professional Employees, Sweden.

Roland Spant reiterated the need for better data on the service sector, housing sector, capital stocks and the public sector. A particular problem with GDP is it underestimates the contribution of the public sector. This makes international comparisons difficult and leads to divergent results on GDP levels as some countries have introduced volume measures while others use assumptions about productivity gains - and those assumptions vary.

He then criticised the obsession with GDP as the main yardstick of economic growth, not least on account of its inclusion of all investment expenditure regardless of whether the investment is used to add to the capital stock or simply to replace worn out or obsolete equipment. Currently, GDP includes replacement of depreciated stock as investment although this does not contribute to improvements in the standard of living. (If GDP were to grow simply as a result of more money being spent on depreciation, it would not mean that the standard of living had improved.) A far better indicator, he argued, would be Net Domestic Product (NDP), which is essentially the same as GDP but with capital depreciation deducted. As an example, investment in IT leads to a big gap between GDP and NDP. From the 1960's to early 1970's investment in IT led to gap of 0.1% between GDP and NDP, in the 1980's to early 1990's, it led to gap of 0.2% and in the late 1990's the gap was 0.5%

GDP exaggerates growth rates and exaggerates differences in GDP growth between US and Europe. However, there is a vested interest in maintaining GDP as an indicator, and NDP is more difficult to measure, as it requires capital stock estimates.

Martin Weale, Director, National Institute of Economic and Social Research, United Kingdom.

GDP was originally conceived in the UK in the 1940's, and it is about time it was updated. Is GDP a good measure of welfare? Research shows there is some correlation between GDP and life expectancy and infant mortality, but national accounting methods need to be improved to take account of other social indicators such as income distribution and the representative household. We need to introduce distributional issues as indicators of economic performance. GDP does not include pollution, congestion, etc and we need to think of ways to price these and incorporate them into an overall measure. GDP also needs to include factors than account for the depreciation of natural resources e.g. oil in Kuwait to allow for future resource exhaustion.

What value do we put on human life? In the UK the value is set at 120 times GDPpp. For developing countries it is much less.

Table showing relative GDP (Japan=100%)

Country	Relative GDP	Life Expectancy	Relative GDP Adjusted for mortality
Japan	100	80	108
USA	134	75	132

Introducing mortality adjustments closes gap between Japanese and US GDP. Accounting for mortality gives a cost to the AIDS epidemic in southern Africa. We need to develop internationally comparable measure of welfare and mortality and move from GDP to statistics that tell us about **quality of life**.

We also need better information about data points in social science e.g. its reliability and provenance.

Martin Weale, (who sits in UK Statistics commission) and says there is no mechanism for stopping production of series. Economists have a problem of identifying what is the best series and what is useless, such as a leading indicator with no predictive power. "Series are discontinued in a strategic process to extract more resources"

In the 1990's the ESA 95 accounting standards were developed. The SNA 93 revisions are to be published in 2008 and include R&D expenditures, military equipment and intangibles.

Enrico Giovannini, Chief Statistician, OECD.

- The OECD is now ready to go with capital stocks and services data publications.
- NDP is a better method to compare growth and reduces the difference in growth between USA and Europe.
- We need to improve the capacity of countries to measure software depreciation. Currently there is a huge discrepancy between estimates from the demand side and the supply side; supply side estimates are ten times those of the demand side.
- National accounts need to include social and environmental measures. We need to develop more comprehensive accounting systems to include accountancy frameworks for sustainable development.

Question: Anatole Katetsky (Economics' editor of The Times)

A large part of the US trade deficit [the US trade deficit is now \$500billion with a current account deficit at 5% of GDP and growing] arises from errors and omissions [a balance of payment component]. Where has this deficit come from?

The deficit is real, as Clyde Prestowitz said earlier; the US spends like a "drunken sailor"

Question: Celia Russell (MIMAS)

How comparable are the international databanks produced by the various intergovernmental organisations and why do we see large discrepancies between the same indicators in databanks from different data providers? How closely do these IGOs work together to produce comparable databanks?

Reply by Enrico Giovannini:

The developing world is still trying to implement the basic national accounts set of definitions. The World Bank, OECD, IMF are working together in the Paris 21 project to help developing countries

develop national statistical infrastructures. It is hoped this project will serve as a model for future project involving IGO's working together. Development of a national accounts system is a long-term investment – it is much easier to get quick and dirty figures just for the press.

Data produced by the intergovernmental organisation are not directly comparable in practice as countries implement standards at different times and data may be collected across the year.

In Europe policy is formulated at supra-national level, so there is a strong pressure on countries to harmonise methods. When we compare US and Europe, the policy pressure is at a national level. How can we pressurise national statisticians to produce comparable figures? The OECD has developed a very big project of sustainable development statistical indicators [Paris21]. Many of these measures have been developed over the last ten years.

Summary of Main Points of Other Sessions

Keynote Address, Helen Clarke, New Zealand Prime Minister, Main Points

The insufficient attention to poverty and underdevelopment at a global level is one of the root causes of global terrorism. More development in the world's poorest countries is not only fair and equitable, but can help create the conditions for a more secure world.

Agriculture as a sector has long been discriminated against in world trade rules. Export subsidies for non-agricultural goods have been prohibited since the beginning of GATT in the late 1940s. However, these subsidies are still permitted in agriculture. The global average agriculture tariff stands at around 62% and much agriculture trade is still limited by import quotas, whereas the tariff on industrial products is 4% and import quotas for such products have been abolished. The world's major industrial exporters have benefited for more than half a century from free trade in manufactured goods. These benefits need to be extended to the developing world through freer trade in agricultural produce. The Prime Minister added that she hoped the fair trade in agriculture would be a key issue for the OECD Ministerial meeting (which is chaired by her this year and which follows the forum).

Diverging Economic Destinies: Implications and Responses, Main points:

- The USA cannot be relied on to power growth for the rest of the world; Japan is locked in recession and Europe is in even worse shape.
- There is a growing divergence between the developed and developing countries
- The USA is misguided in its rejection of the Kyoto protocol and the proposed International Criminal Court, and its unilateral approach to war in Iraq.

An Agenda for Growth, Main Points

Jorgen Elmekev believes contributions to growth include low taxes, low inflation, competition in the product markets, and minimum interference by government. In contrast, Heinz Putzhammer argued that productivity could be increased alongside employment protection. Randall Kroszner emphasised the need to bring down barriers to companies, open markets, promote innovation and implement effective transparency and effective corporate governance.

Hamish McRae pointed out that the world is moving from an increasing to a decreasing workforce and as an example cited a UN forecast predicting that the population of Italy will decline by 29% in our lifetime.

Jean-Philippe Courtois observed that the information and communications technology sector is

still growing despite the collapse of the dot.com bubble and is now equivalent to 2.8% of GDP compared to 0.33% in 1980.

Latin America - What Next, Main Points

Padma Desai compared the current events in Latin America with the Asian Financial crisis. Common features include the enormous short-term borrowing these countries undertook and the poor supervision of their banks and financial institutions. The difference is that East Asian countries all had solid macro-economic credentials before the crisis with growth rates of 8-10%. Although much of the borrowing was undertaken by the private sector, the situation of East Asia was basically robust compared to Latin America. East Asia has a high savings rate whereas Latin American countries tend to overspend.. How can economies deal with cultural aspects like over consumption?

The IMF rescue imposed stringent monetary and fiscal discipline, lacked flexibility and was not country specific. Now prospects for recovery in Brazil are uncertain, and Argentina is suffering 20% unemployment with 50% of the population below the poverty line. The Argentinean debt must be restructured, she said, adding the IMF restructure others but have not restructured themselves.

Jose Gurria argued that the primary concern is to get capital flowing back into the region. There is a shortage of the savings required to finance the investment required for the growth to get out of debt. Investment has to come from the private sector, because there is simply not enough money available from multilateral organizations. The public sector needs to act as a catalyst e.g. with guarantees and other financing techniques. The private sector needs a better regulatory environment to thrive. Competition is lacking and the institutional set up, educational sector etc need to be tackled as a whole. Other requirements include good bankruptcy law, good diffusion R&D, improved physical infrastructure (roads rail airports), the rule of law to be adhered to, and a predictable legal framework.

Gerardo della Paolera observed that "After 9/11, Latin American fell off the map."

Guy Ryder, the General Secretary of the International Confederation of Free Trade Unions, argued that 'economic success in Latin America is a race to the bottom'. In education, Latin America invests at the top end of the education system but primary education is ignored. We find the same with health, resulting in very large levels of inequality. Increased competitiveness has driven down minimum wage, an important determinant of poverty.

The World Economy in 2003, Main Points

Disintegration of states: India and China are possible candidates for disintegration USSR style. International data used by government as a benchmark for their performance. The OECD Ministerial meeting (that follows the forum) is the first since the end of the Iraq war. To what extent have the strains resulting from the war affected international cooperation? The Iraq crisis was a failure of the multilateral process. Will these effects ripple out to affect the Doha round?

Sustainable Development: Making Public-Private Partnerships (PPPs) Work

This session, although under the single banner of PPPs, split into two themes: access to water as a civil right and the global response to the spread of HIV/AIDS.

Thierry Chambolle works for Suez, the French private utility company that controversially (as water is a public good) has taken over the supply of clean water and sewage for many countries in the developing world. After a financial failure in Brazil [they invested dollars in country that now

operates in pesos] which lost the company 700 million euros through devaluation of the local currency, Suez pulled out. This behaviour attracted much criticism from the floor. Chambolle said Suez would only now work in the developing world if there was a global system guaranteeing to cover the foreign exchange risk.

Richard Feachem then talked about the global fund to fight Aids, malaria and TB, a PPP based in Geneva created though a \$3.4 billion budget agreed at the Genoa conference in 2001.

The AIDS pandemic is forecast to peak in 2050-2060. There are 30-40% infection rates in Southern Africa, setting back life expectancy to that of 5-6 decades ago - "a holocaust of young adults". Further north in Africa infection rates are running 5-10 years behind the south and are expected to grow to southern African scales.

India as a country has the most HIV positive people, is about 15 years behind African epidemic but on same trajectory. China, Russia, Indonesia are forecast to have widespread epidemics, triggering "a global crisis at a far greater threat to the world than terrorism"

Quote from the floor:

"Everyone keeps talking about North-South partnerships, but I must be about the only person from the South in the room."