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# What do People Know about the Progress of their Societies?

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African Advisory Board

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## 1.- Introduction

- ❑ Saying that **statistics are at the heart** of modern economic theory and practice is uttering a commonplace.
- ❑ To observe that **measurement is at the heart** of statistics is to voice a heavy commonplace.
- ❑ But it is **no commonplace** to remark that the increasing number of official economic statistics (OESs) and the explosion of newspaper reports, radio and tv programs and internet pages on these statistics, coupled with their high frequency and the necessity to update them, make it imperative to **pay a certain cost** if one wants to follow and process them.

In other words, the **knowledge** of OESs' trajectory over time have a **cost**.

## 1.- Introduction

- ❑ This cost is far **from being negligible**, contrary to classical economics' basic assumption which puts it equal to zero.
- ❑ That knowledge is exactly the **knowledge of society's economic progress**.
- ❑ The three papers I have to discuss are **inquiries into citizens' degree of this knowledge** in the **USA**, **Italy** and the **European Union** in general.
- ❑ They are technical papers, written by some of the world best experts in their field.
- ❑ These experts' task is here complicated because it consists of **a *measurement of a measurement***: they are measuring citizens' knowledge of a set of three quantities (Unemployment rate, GDP growth, Inflation rate) measured by National Statistics Offices.
- ❑ If a measurement is the ***“assignment of numerals to represent properties”***<sup>[1]</sup>, we have a clearer picture of the difficulty the three papers' authors face: a measurement of a measurement, in order to extract some properties of the society's progress. <sup>[1]</sup> Campbell, N. R., *Foundations of Sciences*, New York: Dover, 1957

## 2.- What Do **Americans** Know?

# ***“What US Consumers know about the economy : The impact of economic crisis on knowledge”***

by **Richard T. Curtin** (Curtin@umich.edu)

Research Professor, University of Michigan, USA

Director, Institute of Social Research – Reuters/University of Michigan Surveys of Consumers.

- ✓ May and August 2007
- ✓ April and May 2009

**first** data collection

**second** data collection



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## 2.- What Do **Americans** Know?

### **Key Results**

1. People are **no more knowledgeable** of official economic statistics in 2009 than in 2007 despite the worst economic crisis since the Great Depression.
2. This fact **contradicts the hypotheses** of “staggered updating” and “rational inattention” or “asymmetrical information”.
3. The cost of acquiring the latest OESs is **still high** because of a lack of reports in mass media of the **figures** official rates of unemployment, inflation and economic growth.
4. This costs is **even higher** in 2009 compared to 2007 because people have to sort through a much larger volume of media reports (that are mainly **qualitative**).
5. The benefits of accurate information on OESs **haven't increased** in 2009 compared to 2007.
6. **Local information** is the most appropriate inputs in people's economic decisions.
7. Trust in OESs is **very low** (in 2009)      Do not trust (12%) - Mostly distrust (15%) - Middle position (33%) - Mostly trust (31%) - Trust completely (9%)

## 2.- What Do **Americans** Know?

### ***Strenghts***

Derive from Professor Curtin's long pioneered job in this field and on the University of Michigan worldwide famous "Surveys of Consumers"

1. **Methodology:** Monthly samples representative of all US households, with every adult having an equal probability of being selected for an interview. (For this paper, the data were collected in May and August 2007 and in April and May 2009, and included 2016 cases).

2. **Clarity** of the survey's purpose: *"to measure people's awareness of Official national unemployment rate  
Consumer Price Index  
Rate of GDP growth"*

3. **Intelligibility** of the questions

## 2.- What Do **Americans** Know?

### ***Points needing clarification***

1. The phrase “**information heterogeneity**”. You reject the standard economic model on the ground that “***there is no information heterogeneity in the standard model***” (p. 3). It would have been interesting to say more on this heterogeneity and to suggest how modern economic theory’s inclusion of “information heterogeneity” could help to advance the cause of OES among citizens.

2. **Mystery:** What explains the mystery that “***Informal knowledge outperforms professional economists***” ? (p. 14)

“*Consensus household inflation forecasts do **surprisingly well** relative to those of the presumably better-informed professional economists*” (p. 14)

“*the median consumer forecasts of year-ahead inflation rates **outperformed** all other forecasts in the 1981-1997 period*” (p. 14)

“Mehra (2002): Michigan’s median inflation expectations outperforms that of professional economists and forecasters: “*they are more accurate, unbiased, have predictive content for future inflation, and are efficient with respect to economic variables generally considered pertinent to the behaviour of inflation*”. (p. 14-15)

## 2.- What Do **Americans** Know?

### *Questions*

- 1.- “**Local** information is the most appropriate inputs in people’s economic decisions” (p. 16 & Key result 4). What is the **level of local**: State, region, county, city, village, bloc?
- 2.- At this “local” level:
  - \* Who is/are the chief responsible of:
    - Providing the OESs?
    - These OESs’ behaviour over time
  - \* What makes you believe that trust in OES will increase?
- 3.- You observe “***there are substantial costs that people incur when updating information about economic statistics, significantly higher than the near zero cost that is typically assumed in economic models***”. If economic models are distant from reality, what does this observation imply for those models in general, and in particular for citizens’ and consumers’ economic knowledge or education?
- 4.- Would the paper’s conclusions and findings be the same had your paper been on “***What US Savers (or Investors) - rather than Consumers - know about the economy?***”

### 3.- What Do **Italians** Know?

## ***“What Do Italian Citizens know about the progress of their country? Results from the 2009 ISAE/OECD Survey ”***

by **A. D’Urzo** & **M. Malgarini** (ISAE)  
**M. Bamba** & **E. Giovannini** (OECD)

**ISAE**, Istituto Di Studi E Analisi Economica

**OECD**, Organization for Economic Co-operation and Development

- ✓ March April 2007, the ISAE and the OECD Statistics Directorate launched the **first** survey on what Italian citizens know about official economic statistics.
- ✓ March 2009, the ISAE and the OECD Statistics Directorate launched the **second** survey on what Italian citizens know about official economic statistics.

### 3.- What Do **Italians** Know?

## Key Results

1.- OESs in Italy **fail in reaching its ultimate goal** which for the authors is to increase *“knowledge about the society we live in”*.

2.- This is regrettable because **Italians’ attitude towards OES is relatively positive** if one compares with Americans’.

3.- **Italians are sort of frustrated**

- A majority of Italian (59%) fully trust OESs but almost a quarter of them have never heard of them (during the month of the official release)
- 71% of Italians still think it is important to be informed about OESs
- Two possible reasons for this frustration
  - \* Inadequacy of the “vehicle” to inform (poor media coverage)
  - \* Barriers to in accessing the OESs

4.- In Italy too, **“knowledge does not increase with bad times”**

5.- **Knowledge increases** with: age, education, income, importance attributed to OES, the use of newspapers, attention to political and civic leaders

### 3.- What Do **Italians** Know?

## Strengths

1.- **Mathematization**: The authors used the results of the two surveys (2007 and 2009) to calculate two raw scores, “*two z-scores*” (Z-score, an aggregate measure of statistical knowledge)

2.- **Econometric models** of knowledge (based on previous works by Fullone-Martelli, 2008).

3.- **Intelligibility of the questions** (which follow Professor Curtin’s methodology: each question has 3 core elements:

- \* A brief definition of the key statistical variable
- \* A reference to the government agency responsible for its publication
- \* A question about the most recently published figure

### 3.- What Do **Italians** Know?

## Questions

- 1.- **What are “the barriers”** that are causing the frustration ?(p. 13)
- 2.- The report divides Italy into 4 regions (North West, North East, Centre and South) but it is not clear, particularly applying the econometric model if in Italy **the zone of residence is a determining factor** regarding knowledge (or ignorance) of OES (p. 12).
- 3.- Page 3 : *“Private information derived from neighbourhoods or local communities may be better appreciated than the public information stemming from official sources (Curtin, 2008)”*. Is it appropriate to **translate the US scheme into Italy** given the differences of attitudes in two cases? (For example, Italians trust OES, Americans do not)
- 4.- We should **not lose sight of the essential goal**: Statistics as a source of knowledge and trust: how are the mathematization and the econometric modelling serving this goal?

## 4.- What Do Europeans Know?

### ***“Trust, Statistics & Knowledge: Evidence from the EC Special Eurobarometer Survey 2009”***

By **Marco Mira d’Ercole** (OECD) & **A. Papacostas** (Eurobarometer)

- ✓ September 2009 (with previous survey conducted in March-April 2007)
- ✓ Face-to-face interviews with around 1,000 people per country (27 European countries)

## 4.- What Do **Europeans** Know?

### **Key Results**

1.- On the whole, **ignorance (DK, Don't know) is dominant** regarding GDP growth (around 85% in Romania) and inflation (75% Portugal). With unemployment, “Wrong answer dominate”.

2.- In all the three cases, **the combination of ignorance and “wrong answers” overdominates the “right answers”**

3.- **Certain groups are more likely to answer correctly:** Men - Highly educated – Managers - White collars workers

4.- Overall, even very highly educated people and those in managerial positions have **“very low levels of statistical knowledge”**.

5.- How has Europeans' **statistical knowledge change over time** (Comparing 2007 and 2009)?:

- \* No clear improvement

- \* Cases of Deterioration (particularly regarding GDP growth and Inflation)

## 4.- What Do Europeans Know?

### Strengths

1.- **Comparability** (27 countries)

2.- **Uniformity and high percentage** in (p. 13, 14):

Ignorance – Unimportance -Distrust

3.- Thanks among others to ICT, **costs of producing and disseminating statistics have diminished**, leading to plethora of information. A plethora which instead of increasing people's knowledge may rather increase confusion and the cost of processing OESs.

4.- Two capital (policy oriented) questions asked that are absent in the two other papers: What are the above mentioned uniformity's and confusion's and costs' **implication for:**

**NSOs (National Statistics Offices)? - Democratic Institutions?**

5.- **NSOs must change:**

\* From their traditional role of "Information providers" to a new role of "**knowledge builders**" (In this regards, NSOs' impact should also be measured by evaluating the extent to which they contribute to societal knowledge)

\* By **expanding their activity** to cover communication, impact assessment, etc.

## 4.- What Do Europeans Know?

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## 5.- Questions to the Three Papers

### Q1/ Domain of definition

a/ Why limit “economic statistical knowledge to the 3 indicators: Unemployment rate, GDP growth, Inflation rate

b/ Why about other economic (or social) indicators, for example “exchange rate”, particularly in today’s context of:

- \* challenges to dollar supremacy
- \* debates for a new reserve currency
- \* reports on currencies wars (Krugman article in IHT, 2 days ago)
- \* projects of currencies unions in South America, Asia, Africa

c/ Is there a hierarchy between the indicators? If so what is the dominant indicator and what to do to increase knowledge about it

## 5.- Questions to the Three Papers

### Q2/ Target

a/ Is it possible to define a “Target of knowledge” to be reached and under which, a society’s lack of knowledge, that is, a **society’s ignorance of OESs becomes dangerous** because it compels society’s economic decline?

b/ Who is capable of defining this target?

c/ Who is legitimate to define this target?

## 5.- Questions to the Three Papers

### Q3/ Adam Smith & “the ensemble’s failure”

Book 1, “*An Inquiry into the Nature and Causes of the Wealth of Nations*” Chap 2, “*Of the Principle which gives occasion to the distribution of labor*”

**“Give me that which I want,  
and you shall have this which you want”**

Obviously, the ensemble “*The rulers-NSOs and the media*” fails to give society the statistics “that which it wants” or fails in the manner to communicate these statistics.

Is this failure the explanation of our epoch’s recurrent crises?  
Are we condemned to economic decline?

## 5.- Questions to the Three Papers

### Q4/ Adam Smith & “Local information”

Book 1, “*An Inquiry into the Nature and Causes of the Wealth of Nations*” Chap 2, “*Of the Principle which gives occasion to the distribution of labor*”

*“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”*

In other words,

John Kozy :*“individuals, acting in their own self-interest as economic agents, engage in economic activities that bring them the greatest financial rewards thereby maximizing the economic well-being of society as a whole.”*

Is this true? Is this the way we want society to function? Isn't this “self-interest agents” type of society the one we are heading to, at least if one considers USA and Italy as described by Curtin's paper and that of Malgarini et al, when they both stress the tendency in both countries for citizens' concerns **only** for “**Local information considered the most appropriate** inputs in people's economic decisions” and neglect for national OESs.

## 5.- Questions to the Three Papers

### **Q5/ Uncertainty of**

**a/ The measurements**

**b/ The measurements of measurements**

**c/ People's answers**

## 6.- Conclusion

John Maynard Keynes, “***The General Theory of Employment, Interest, and Money***”, last Chapter, chapter 24, “***Concluding Notes on the Social Philosophy Towards Which The General Theory Might Lead***”:

*“The **ideas** of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed **the world is ruled by little else.**”*

*“(…) in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the **ideas** which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, **it is ideas**, not vested interests, which are dangerous for good or evil”.*

I haven't found any (new) idea from the paper that can make knowledge of OES more: **widespread - trustworthy - useful as a guide** for decision making both at individual and national levels

## 6.- Conclusion

■ This lack of new ideas is not a weakness peculiar to the papers discussed here. In my view, it's a general weakness of society, more specifically of the way power and in particular political **power is attributed, exercised and respected.**

■ Political leaders have means to survive or even prosper while **not fulfilling the promises** thank to which they took office. Things shouldn't be so.

■ Here, statistics could help. A political leader's term or eligibility to bid for another term should be **linked to the improvement** he or she has brought to a chosen set of objectively measurable statistical indicators of the nation's general welfare.

## 6.- Conclusion

■ The **advantages this linkage** would bring to society include: focusing citizenry's attention and therefore that of political leader too, on priorities objectively formulated in term of the chosen indicators; exclusion of two of the worst evils in contemporary politics: demagoguery and impossible promises; stabilizing if not decreasing of political campaign costs.

■ If such a measure was implemented and if National Statistics Offices do their job ethically, people's current disinterest in and distrust of their society's economic statistics would be replaced by a **fervent desire to know** and a permanent monitoring of these statistics since these would be for them both **objective criteria to select their leaders** and a **motive for enhanced social consensus**.

# Thank You

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