Italy's numbers guy wants statistics to add more value

[Enrico Giovannini]

By Christopher Emsden
And Chiara Vasarri

ROME—Enrico Giovannini is a statistician with a mission—to make statistics so relevant and accessible, ordinary people are able to use them to assess and improve their own living standards.

Since taking the helm of Italian national statistics institute Istat a year ago, Mr. Giovannini, 53, has spearheaded the agency's efforts to present its data in more meaningful ways.

This push enters a new phase in December, when Istat launches an online, interactive site that will allow users to obtain more fine-grained pictures of the state of the Italian economy and society, and their own position within them.

For example, Mr. Giovannini says, a "40-something couple with children in Milan" would learn how their peers are faring in terms of income and costs.

As a result, he says, he expects an interesting psychological effect, in which Italian residents will no longer insist that Istat's findings are wrong but rather that "they themselves are wrong, as in they aren't placed where they want to be."

Before joining Istat, Mr. Giovannini spent eight years as chief statistician at the Organization for Economic Cooperation and Development in Paris, where he also served on the high-profile Stiglitz Commission that laid out the case for updating the concept of gross domestic product.

And now, following the global banking and credit crisis, he expects tangible changes in the world of statistics, both in the way data are scrutinized and in the way in which they are presented.

The crisis raised concerns that policy makers based their decisions on faulty information. The problem, he argues, wasn't with the accuracy of the data but with their presentation and application. "The thing is, since a lot of people predicted the crisis, then arguably the data must have been there," says Mr. Giovannini.

"So, more than the data, it was an interpretation issue," he says, speaking in his large, wood-paneled Rome office, amid piles of statistical tomes in multiple languages.

In the future, "one big shift will be from flows to stocks," he says. "We may have been giving too little emphasis on the latter."

In a statistician's lexicon, flows are made up of transactions or movements of assets; the archetype of a "flow" concept is gross domestic product. Stocks, on the other hand, are absolute levels that can rise or fall. The key measure of stocks is capital, which can consist of anything from machinery to education or social cohesion, to the number of trees in a forest.

As an example, Mr. Giovannini points to household balance sheets in some countries—for instance, the U.S. or Spain—as having been harbingers of the global financial crisis.

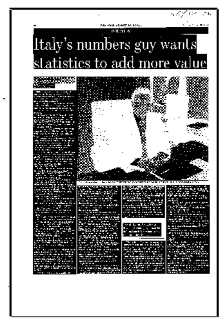
Viewed in flow terms, the surge in house prices didn't seem so alarming, as GDP appeared to be rising robustly and low interest rates kept mortgage payments under control. But considered in stock terms, or by looking at absolute levels of household debt as a share of disposable income, the spike was extraordinary and should have triggered alarms about the risk of a housing bubble.

Any shift in post-crisis attention to stocks from flows will probably lead to big changes in the sort of information on which policy makers will need to focus, Mr. Giovannini says. For example, he says, there will be a greater focus on household wealth—using data on demographics, household consumption and assets—rather than purely income as a critical indicator.

And the spotlight will increasingly fall on one of Mr. Giovannini's most cherished themes: sustainability.

"It [capital] is the only way to link the well-being of the current generation to that of future generations," says Mr. Giovannini, who is the father of two. "Capital is a stock that I can build up or deplete and which can be put to productive use," he adds. "If my generation leaves adequate capital to the future generation to satisfy its needs, then we are in a regime of sustainability."

Mr. Giovannini notes that, along with the U.S., Italy has seen the greatest growth in inequality of any OECD member in the past decade. Calculated by income—a flow concept—Italy's Gini coefficient, a measure of inequality in which lower scores signal greater equality, is 0.35. But using wealth—a stock concept—as a measure, the national Gini coefficient is 0.61. For Mr. Giovannini, the gap—a function of Italy's high taxation on labor income and low tax rates on capital—can serve as a guide for policy makers to measure real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inequality trends.

A look at recent employment trends also raises concerns, he says. While the Italian model used to consist of young people being unemployed and their parents working a lot of overtime, reforms in the mid-1990s introduced more flexibility in employment contracts and ushered in a jobs boom for the younger generation. This brought the unemployment rate down to 6% by the spring of 2007, from 12.3% in April 1996.

But despite all the new jobs, nobody felt flush. In fact, average annual disposable income in Italy actually fell by €360 ($457) a resident from 2000 through 2009 in real terms—"a big, big number," Mr. Giovannini says. What's more, "parents felt they were earning less, while youth felt they were on lousy salaries," he adds.

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"This is the kind of point where we statisticians need to stop insisting their data are right and start trying to understand the views of households," Mr. Giovannini says.

Citizens tend to be cynical, he notes, adding that all Italians are sure they know better than Istat when it comes to inflation and the scale of the underground economy.

Istat—which measures more than 50,000 prices a month—and its sister organizations were inevitably proven right, he says, when they claimed that inflation wasn't galloping at a double-digit pace after the euro was introduced in 2001.

But there is little solace in being right, he says, as Istat missed the opportunity to detect a shift in relative prices—for example salaries compared with household costs—that might have allowed for easier recognition of the weak wage growth of the past decade.

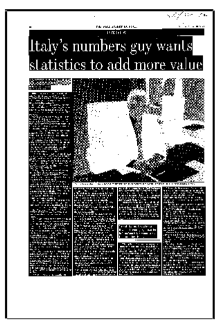
Many Italians—whose doctors, plumbers and baby-sitters ask to be paid in cash—also find official estimates of the underground economy laughably low.

In a study published last month, Istat figures put the black economy at 17.5% of GDP. But as the public sector and large companies are largely unable to do without tax receipts, people are right that evasion levels in the rest of the economy are roughly twice as high as Istat's headline figure, Mr. Giovannini says.

One way for statisticians to up their game, he says, is to push back against interpretations that rely too much on the classic averages that institutes such as Istat publish.

Variation tells the story, not just averages, Mr. Giovannini says. He points to one piece of Italian data—residential rental costs—that mixes housing units on the real-estate market and those in public housing schemes, so the final average bears no relation to the two realities that the vast majority of Italians experience.

Some argue that making statistics more user-friendly may drive up salary demands. Mr. Giovannini simply says, "If statistics are to add value, it will be because people use the information to know more about the world they live in."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