Governments Manipulate Data

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Key Points

- Governments widely manipulate official economic and social data—but the public tends to disregard this fact.

- There is extensive empirical evidence that governments extensively manipulate official data.

- National statistical offices should be independent of their government to fight such manipulation, and alternative data producers should be supported.

- The public should be aware of data that government find difficult to control, such as those on the black market or light intensity captured by satellites as an indicator of income level.

Introduction

Academic economists assume as a matter of course that official data produced by national statistical offices reflect reality. It is, of course, known that the data are often revised and updated, but economists interpret this to reflect reality more closely and better.

In contrast, the famous economist Peter Drucker is reported to have said 'what gets measured, gets managed'. This statement is not entirely correct. There is no reason why unimportant measures should be manipulated. This would require a certain amount of effort, and the originator may be accused of falsifying data. However, Drucker is correct concerning essential data. The statement should therefore be 'what is important data for governments gets

managed'. Many economic and social data are most relevant for governments and are therefore subject to manipulation (Aragao and Linsi, 2020).

Academic economists are somewhat reluctant to accept this fact. In the last few years, many economists have become even less inclined to question government official data because the now prevailing *Zeitgeist* is convinced that government and its bureaucracy are composed of people pursuing the human good and acting in society's best interests.

There is much compelling evidence that governments systematically manipulate official data. Particularly well known is the case in Greece (Sturgess, 2010; Xafa, 2019; Prévost, 2021). China has consistently inflated the size of its economy, especially since 2012. For instance, from 2014 to 2019 GNP rose by 48%, according to official figures, but scholars take an increase of 33% to be a correct figure (*The Economist*, 2020). Recently, the World Business Report of the World Bank made a major change to a crucial figure after intervention by the Chinese government (*The Economist*, 2021).

There are many other instances in which governments have manipulated official data, but these changes often are unobserved, or at least do not make it into the international press. To give only one example: in Argentina during the authoritarian period, in 2007, the government managed official statistics of GDP per capita to be 27% higher than was the case (Coremberg, 2014).

These widespread manipulations often occur because there is a strong incentive to engage in that activity. The benefits for governments are considerable compared to the cost. Governments can strongly raise their re-election chances by presenting good economic and social data, e.g. reducing the reported unemployment rate or pushing up the published growth of income. Such data manipulation policy is much cheaper than actually improving the state of the economy.

Manipulations of economic and social data undertaken by the government for its own benefit are rarely detected because it is pretty easy to modify and falsify data. Possibilities are, for instance, to introduce new definitions; to change accounting methods; to exploit methodological margins; to exclude inconvenient data, or only publish agreeable parts of the data instead of the complete picture.

Biasing data by managing them on purpose produces several harmful consequences. Individuals as voters and consumers are wrongly informed and cannot evaluate the state of the economy and society. Biased information is likely to result in poor decisions. In particular, economic agents cannot evaluate whether the government has done a good job in running the economy. Such biased perceptions undermine the relationship between the political sphere and the citizenry in a democracy (Morgan, 2018). Those parts of government not involved in manipulating the figures are also wrongly informed and therefore take poor decisions. For scientific research, biased data produce mistaken econometric estimates, which in turn may lead to wrong analyses and policy recommendations.

It is not easy to counteract governments' manipulation of data. An obvious possibility is to grant the official statistical office independence from politics constitutionally. This is no easy task as governments have a strong incentive to influence the production and publication of important data. A more effective possibility is to introduce competition between alternative data producers, including international statistical offices that depend less on specific national governments. It is also helpful to observe prices existing and developing on black markets. It has often been observed that the official rate of exchange differs strongly from the official rate. Finally, scientific research can make an effort to produce data beyond the control of politicians and public officials. A novel approach is for satellites to capture the night-time light intensity as an approximation of the income level in regions of the Earth. However, this approach only works as long as governments do not react. Assuming they want to show a higher level of income, they can order lower-level political units and individuals to light buildings and streets more strongly. What countermeasures work best depends on specific conditions. They are certainly more readily available in countries subject to the rule of law. A fundamental requirement to fight data manipulation by governments is the freedom of the press. It must be allowed to check data and to report undue interventions by governments.

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