



New Institutional Framework for the National Statistics Institute: Enhancing Independence and Reliability

Recent controversies concerning the CPI figures and the Census must be analyzed with extreme technical seriousness, without advancing intentionality judgments; until now they have been considered methodological adjustments in the first case, and communicational incompetence in the second, rather than intentional data manipulation.

The Executive's efforts aiming at greater autonomy for the National Statistics Institute (INE) are worth highlighting. This will result in more reliable data, which is essential because statistics and data collection processes are highly relevant in the elaboration of public policies, and they are a general information source for the people. Therefore, reducing the potential conflicts of interest that may arise between the institution in charge of generating relevant economic and social information and the government is a step in the right direction.

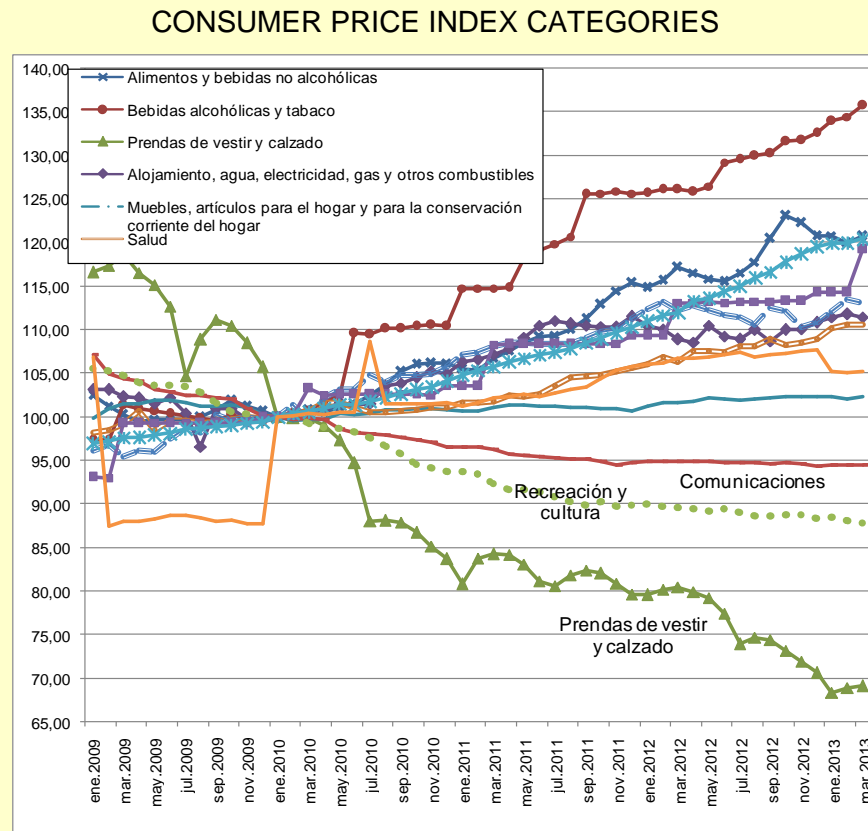
Regardless of the current debate, specifically in relation to the behavior of some of the components of the Consumer Price Index (CPI) and the communicational management of the 2012 Census – we shall go into details further on-, we have to admit that our country's different indicators enjoy a very good reputation. It is a valuable institutional asset that we should take care of as a country.

Controversies Concerning the CPI

The Consumer Price Index, one of the INE's most disseminated and relevant products, whose impact embraces from updating the indexed units of account – UF and UTM- to the monetary policy's proper management, has been the focus of serious questionings. In this perspective, it has been suggested that the INE is systematically understating the price increase of the representative basket of goods and services it seeks to measure; especially, due to the modifications introduced in the new methodology for December 2008 monthly-based series, which are maintained in the current series based on 2009, differing only in its territorial coverage which goes

from a sample exclusively taken in Santiago to another including regional capitals and their more relevant conurban areas. Particularly, 3 out of 12 Index categories, which altogether represent 17.4% of the basket, are assumingly exhibiting downward behaviors: clothing and shoes, communications, recreation and culture.

Chart 1



Source: National Statistics Institute, INE.

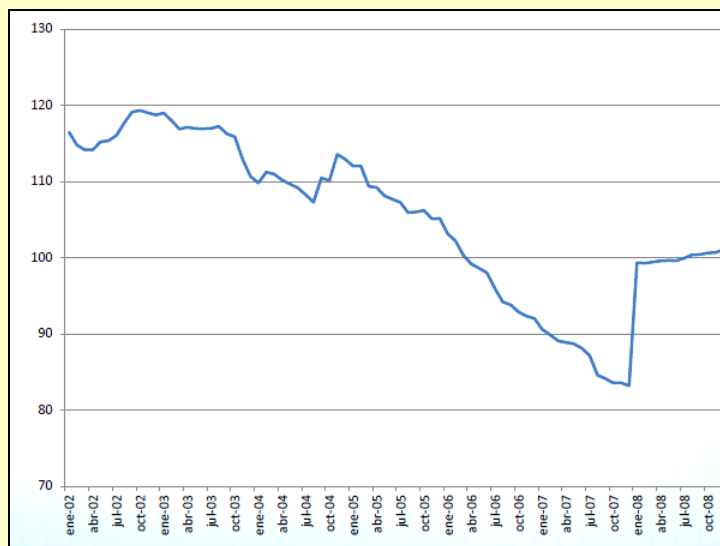
These three categories have a common characteristic: they are composed of products representing important quality changes over time. For example, in recreation and culture, we find goods such as television sets, computers, cameras and other technological equipments; in communication, mobile telephone equipments; and in clothing and shoes, fashion aggravates the problem, because it introduces many varieties –the Index’s basic unit-classified as seasonal and temporal, together with a very detailed specification of varieties and a high price seasonality, embracing from pre-season collections to sales. Consequently, clothing and shoes have a very high turnover in the Index, which makes it very sensitive to the

methodology used for the substitution of varieties and the sales treatment; therefore, it is probably one of the most controversial among these three categories.

Its methodology will be revised by the INE under the supervision of an invited expert commission, as announced in the meeting of the External Technical Committee, a body convoked to inform the users and the community about the actions to be taken; for example, a control to observe the effect of fashion on clothing and a greater representativity requirement to remain in the measure, thereby solving this bias.

Chart 2

CONSUMER PRICE INDEX FOR CLOTHING IN SOUTH AFRICA



Source: INE.

It is important to highlight that the methodological difficulty in the clothing price measure, due to its special features entailing a systematic understatement, does not imply major consequences on the economy and citizen wellbeing, so much of the criticism seems disproportionate; consequently, it helps analyzing some of the questions that come up. Are UF savers and people who receive adjustable wages being impoverished? Is the Central Bank mistaken in his monetary policy, because the real inflation is higher? Is the GDP's real growth being overestimated due to the inflation's understatement?

In relation to the first doubt, we should explain that there are other factors that tend to make the estimated inflation higher than it really is, as demonstrated by the Boskin Commission for the United States, which results in the fact that those indexed measures generally grow faster than real prices.

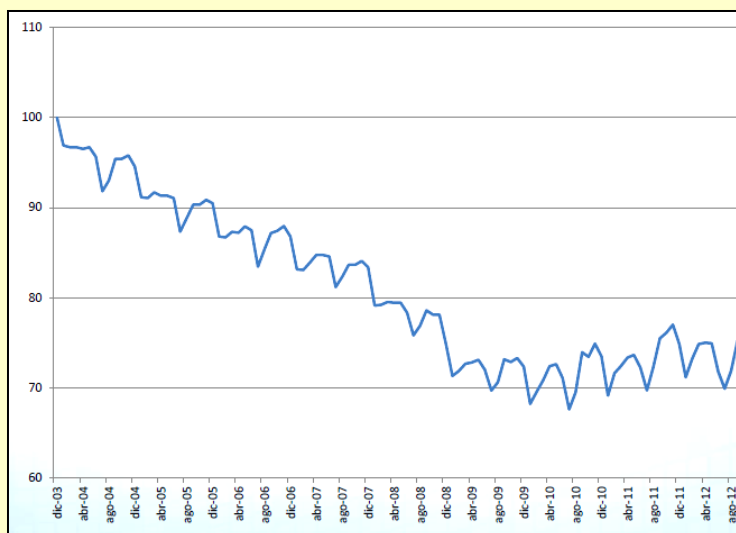
As for the effects on the monetary policy's proper management, the most comfortable divergence estimates –that the true CPI is 3% instead of 1.5%– would anyhow situate inflation in the center of the band set by the Central Bank (BC), that is, there is no such shift in the BC decisions.

Regarding the third questioning, the real GDP calculation methodology used by the Central Bank scarcely uses CPI data, and it is generally based on physical production indexes coming from different sectors.

Furthermore, we are not talking about a problem which exists only in our country and its statistical framework or, as some people have suggested, some type of intentional manipulation. In fact, many countries have had to cope with this difficulty, for example, South Africa and the United Kingdom, whose clothing price indexes are shown in Chart 2 and 3.

Chart 3

CONSUMER PRICE INDEX FOR CLOTHING IN THE UNITED KINGDOM



Source: INE.

In addition to these methodological changes, we should mention the positive mid-term announcements of the INE's new director, aimed at increasing transparency and the information available for the market, in order to allow the Index to be more replicable; disseminating manuals related to the field work; and reviewing all products to seek for potential biases introduced by recurrent quality changes in the measured products, thus increasing precision and transparency when the basket is updated with data from the VIII *Encuesta de Presupuestos Familiares* (Family Budget Survey), which will be revealed in the second semester of the present year.

Controversies Regarding the 2012 Census

The quality of the figures from the last Census' has also been subject to public concern; the issue has even reached the criminal court of the Public Ministry. As a result thereof, the Statistics Institute has undertaken an internal audit concerning the census process, whose methods will be assessed by external experts.¹ Although we will not have an absolute certainty about the details until the audit's results come to light, questionings seem to be motivated by communicational incompetence and the existence of arguments suggesting that the applied methodological change is correct, but maybe too hasty. Nevertheless, they should not question, at least for now, the probity of the census process, and still less, of the field work that was carried out.

In order to understand this communicational and methodological issue, we have to consider that this census process differs from previous ones, inasmuch as data collection work, according to the best international practices, is not done in a single legal holiday but over several days, by more trained personnel. This fact introduces some particularities that must be taken into account, such as the probability of finding a relevant number of absent residents, people who actually inhabit a housing unit, but in spite of several visits they were not found at home; difficulties probably arise from this specific point. The problem came later on, when releasing the correctly obtained data from the residents who were effectively censused; data were projected through statistical methods to a greater population which included the estimated absent residents, without being totally clear that it was a projection.

Some people insinuate that the imputation of non-censused people –which is usual- was not duly specified when communicating the results. Furthermore, it has been said that the population's composition estimates are erroneous due to the way these imputations were done, but once again, there will be no clarity until the investigation's results are known.

What could be even more questionable is that, apparently, projections also included the non-interviewed population; people residing in dwellings that, for some reason, were not effectively visited and that are usually incorporated to the population after reviews and verifications from international organisms.

Despite these questionings, it is important to highlight that total population estimates always introduce adjustments, they are compared with data from the Registry Office and validated by CELADE, and everything we have until now has always been on a preliminary estimate basis; moreover, the design of social policies has a smaller margin of errors for total population and its composition.

Therefore, it is imperative that the internal audit's results are common knowledge and confirm that it was a problem of data presentation and dissemination and that there were no mistakes in the data collection process, thus excluding any possible doubt regarding the census process and the credibility of official statistics.

The INE's New Institutional Framework

In January of this year, the Executive introduced a bill at the National Congress aimed at reforming the INE's institutional framework. The elaboration of this bill took into account the recommendations of different international organisms, for example, the UN Statistical Commission, the Organization for Economic Cooperation and Development (OECD), the ECLAC Statistics Division and the International Monetary Fund (IMF). These recommendations are based on a series of principles like independence, opportunity, credibility and reliability. The bill also seeks that statistics are subject to internationally accepted standards, so they are comparable with others.

While keeping the principle of statistical decentralization, the legal initiative renovates the INE without changing its denomination, but modifying its organic structure and operation. Beyond some necessary improvements during its proceeding period, the purpose of the bill is to rely on a more modern institute, which offers more reliability regarding the figures it is call to elaborate.

The bill's main innovations are the following:

1. The INE is provided with suitable institutional autonomy and technical capacity. The bill proposes the creation of a public corporation, a legal and patrimonial successor of the current INE. It shall be an autonomous body, with legal status and equity capital, which will be a part of a National Statistics System, also integrated by all government instruments developing statistical activities, under the coordination of an Interministerial Statistics Commission, and advised by the Central Bank of Chile.

The bill proposes to change the INE's corporate government structure, transferring the new INE's management to a deliberative body, the National Statistics Council. The deliberative character of the INE's new top executive board and the way advisors are appointed aim at giving more legitimacy to its decisions, since they should provide for higher degrees of reflection and complementary view and a higher level of independence from the government in office.

The Council shall be composed of five members, appointed by the President of the Republic on agreement of 2/3 of the Senate's members in officeii, for a five-year term, being partially replaced. The bill also envisages specific incompatibilities and disqualifications to avoid conflicts of interest,

together with prohibitions to use the information of which they take cognizance while holding their position. For the sake of safeguarding the referred autonomy, specific grounds are stipulated to terminate the duties of the members. The Minister of Economy, Development and Tourism may attend the sessions of the Council with the right to speak and propose the adoption of specific agreements, being able to suspend any one of them for up to 15 days; unanimity is required for not applying the suspension decree.iii

In short, the bill proposes a cautious and transparent process for appointing advisers and proper coordination with the Ministry of Economy.

The Council shall have a technical character, in charge of elaborating the national statistical policy and supervising the quality of its production by government bodies. Given the role assumed by the new Council, and the new INE, it will be essential that both advisers and the INE's staff are highly qualified professionals or technicians who may rely on permanent training. Therefore, it is extremely important to allocate the necessary budget for the new body. Among other things, the Council shall approve the designs, statistical products and new methodologies, and determine the criteria to configure the official statistics carried out by a government instrument; etc.iv

The new INE shall have the autonomy to decide which surveys or statistical researches will be made, and to determine its technical bases or methodology, regardless of the competence areas of the new INE for formulating statistics. This matter is relevant if we consider that the government in office might be interested in making or not a specific survey, according to the political evaluation of the moment.

2. Interministerial Statistical Commission. This Commission, which shall replace the National Statistics Commission, will be a part of the National Statistics System and its main purpose shall be the system's coordination, making recommendations to other government instruments that elaborate statistics, thus favoring the exchange of statistical information and the coordination among agents. This commission will be integrated by the Minister of Finance, Minister Secretary-General of the Presidency, Minister of Economy, Development and Tourism, Minister of Social Development and the Minister of Work and Social Security, or their respective undersecretaries.

3. Statistical principles. Statistical principles that will govern the system are adopted, and they shall be respected and promoted by government instruments that formulate statistics. Some of these principles are impartiality, objectivity, technical quality, transparency, proportionality, statistical purpose and statistical secret.

4. Strengthening the statistical secret. It is stipulated that the confidentiality protecting the information given to the INE is, and must be, absolute. Tax secret is also extended to the INE's staff taking cognizance of reserved tax information while holding their office. However, the INE and the Central Bank shall be entitled to exchange information which is collected for the fulfilment of their respective statistical functions.

5. Control. The INE shall be subject to the control of the Contraloría General de la República (Office of the National Comptroller General), but its resolutions shall be exempt from review as to constitutionality and legality, which has no apparent explanation.

6. Accountability and transparency. The Council shall present a yearly report to the Senate concerning the developed policies and programs, its results and proposals for the next period. This is positive from the perspective of transparency and management control of such a relevant institution for our country. However, in transparency matters, and notwithstanding that the INE shall be subject to the provisions of the public service transparency law and the law regarding the access to information from government instruments, the truth is that this legal initiative could have expressly incorporated measures to properly disclose the policies, plans or methodologies elaborated or used by the INE, as well as the criteria and standards to configure the pertinent statistics; this should also be applied to the recommendations that the Interministerial Statistics Commission shall make on these matters. Due disclosure and transparency of the methodologies and criteria contribute to further improve reliability in the products formulated by the national statistics constituted authority, while allowing the review and verification of the corresponding information.

Conclusions

Recent controversies concerning the CPI figures and the Census must be analyzed with extreme technical seriousness, without advancing intentionality judgments; until now they have been considered methodological adjustments in the first case and communicational inexperience in the second. Therefore, we are not talking of intentional data manipulation with political purposes, as certain sectors have expressed. In spite of this, the bill under discussion offers a valuable opportunity to strengthen the INE. This legal initiative properly satisfies the goal of a more modern institute, which can be reliable in terms of the elaboration of such important figures. It is a well-aimed initiative that will help comply with international commitments engaged by our country to reach better practices in the statistical activity.

In brief...

THE BILL'S SIX MODIFICATIONS AND INNOVATIONS

1. The INE will be an autonomous body, directed by a Council whose members will be appointed by the President on approval of the Senate. The Council's main feature is its technical character.
2. Creation of the Interministerial Statistics Commission.
3. Adoption of statistical principles that will govern the system.
4. Enhancement of the statistical secret.
5. The INE will be subject to the control of the *Contraloría General de la República* (Office of the National Comptroller General).
6. The Council shall present the Senate a report including the developed policies and programs, its results, and their proposals for the following period.

ⁱ INE press release May 2nd.

ⁱⁱ The bill's required quorum to obtain the Senate's agreement concerning the appointment of advisers is debatable. In this perspective, for example, the Central Bank's Constitutional Organic Law requires simple majority only.

ⁱⁱⁱ A similar rule is contained in the Central Bank's Organic Law regarding the participation of the Minister of Finance in the councils and the power to suspend an agreement.

^{iv} Article 2 of the bill defines public statistics as those elaborated by government instruments, in accordance with their powers; and official statistics as those elaborated by the INE, and public-natured ones which are given official character by the INE. According to the bill, this character is acquired when they are processed in accordance with this law and its regulation. However, the difference between public and official categories is not sufficiently explicit, nor what effects are produced by the quality of official.