**Poor Data Handicap Economic Growth**

**January 2019**

Any analysis of the performance of the Puerto Rican economy is seriously hampered by the poor quality of the official data. Indeed, in some respects the official data are virtually useless. The poor quality of the data not only makes questionable any statements about what has been happening to the economy; but policy formulation is seriously weakened because we don’t really know, beyond generalizations, about what has been happening to the course of the economy.

Hurricanes Irma and Maria devastated Puerto Rico in September 2017. The loss of lives, the destruction of people’s homes, and the damage to businesses and the infrastructure still remain in the headlines. The absence of reliable economic data has provided a rationale for the slow release of funds by the federal government, an issue not experienced by Houston or Florida.

Activity in the private sector is also hampered by limited and inaccurate economic data. When faced with the uncertainly of investing in a territory and then to have this uncertainty compounded by poor quality data, firms will often decide against the investment. Both within the states and in many international sites—sites from South Carolina to Singapore—firms will find a preferable context for their investments.

Speaking in 2010, William Dudley, the then-President of the New York Federal Reserve Bank, usefully summed up the problems arising from the shortcomings of Puerto Rico’s economic data: “The private and public sectors both need accurate, timely and comprehensive economic statistics to perform effectively. It is impossible to make good decisions without a solid factual basis for those decisions. For example, the government needs good economic information to develop effective fiscal, development and regulatory policy. Likewise, to make the best production, investment and pricing decision, businesses need accurate and timely information on things such as wages, income and prices. Poor quality information increases uncertainty and this uncertainty inhibits well-considered risk-taking and investment decisions.”

**The Problems: Important Examples**

The most obvious and perhaps the most serious problem with Puerto Rican economic data is that 1954 is used as the base year in calculating real (i.e., inflation adjusted) aggregates. Over a 60-plus year period, goods and services on the market change dramatically, the “market basket” of goods becomes very different, completely new products are introduced, and many old products no longer exist. Thus, the “real” values of aggregates reported today are not real at all.

For example, it is widely recognized that the economy of Puerto Rico has seriously declined since 2006. The official data show that real GNP fell by 17.6% between 2006 and 2007. (These and all other figures in this memo are for fiscal years. Data for fiscal year 2018, which includes the hurricane month of September 2017, are not yet available.) Yet, if a more meaningful calculation were made, we might find that the decline has been very different from this figure, perhaps greater or perhaps lesser. With accurate information, more appropriate policy could be formulated.

Also, aside from the magnitude of reported GNP and other aggregates, strange anomalies appear in the figures. For example, for 2017, current dollar personal income is reported as 91.5% of GNP. But in “constant 1954 prices,” real personal income for 2017 is reported as 55.1% *larger* than GNP. While these figures may have resulted from an accurate calculation (using the prices and “market basket” proportions of 1954), they are not useful in giving us a sense of what is really going on. (Other similar anomalies exist, as can be observed in an examination of Table 1 in the Statistical Appendix of the annual *Informe Económico al Gobernador Puerto Rico*.)

The problem with the calculation of inflation adjusted aggregates has a parallel in the questionable figures in the Consumer Price Index (CPI). In 2010, it was revealed that the exiting CPI was highly flawed and inaccurate. In part, the problem involved methodological errors, but the limited collection of data was also an issue. The figures for recent years were repaired, based on correction of the methodological errors, but the issue of information collection—a problem rooted in limited resources—seems to continue to exist. Moreover, though the CPI was revised, it appears that none of the figures for earlier years were brought into line with the new CPI. (In addition, it seems that the implicit price deflators used for calculation of real values of aggregate consumption are not consistent with the CPI figures.)

**The Rehabilitation Process**

*Repairing the economic database will be a substantial task, requiring significant resources.* In addition to the commitment of sufficient resources, at least two actions will be needed to begin this process:

* priorities should be established, and
* collaboration with the relevant agencies in the federal government must be developed, involving extensive assistance from those agencies.

Four issues stand out:

1. *Development of a system by which the base year for real calculations* of aggregates would be a recent year, and the base year would be updated frequently, as is done in the national accounts of the United States.
2. *The methodology of the CPI should be reviewed* and its effectiveness should be established. In addition, *the extent of information collection for the CPI must be increased.*
3. *An examination of the difference between the two sets of employment data* (based on the household survey and the establishment survey, respectively) is required to explain this difference. One authoritative set of employment data should be established.
4. *The “informal sector” requires thorough examination,* and thorough, detailed account of activities in the “informal sector” should be reported. (Current estimates of the “informal sector” range around 25% of total economic activity in Puerto Rico.) Information about this sector is essential not only for understanding the economy, but also for matters of tax collection and other aspects of regulation.

**Immediate Action**

* *The administrative units that collect and publish Puerto Rico’s economic data need to be restructured with independence and thus able to present their findings free from political considerations.*
* *More funds must be provided to support the collection and dissemination of the data.*
* *These reforms of independence and financial support for data operations will be best accomplished—perhaps the only way they can be accomplished—by partnering with U.S. government agencies,* such as *the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the Census Bureau.[[1]](#footnote-1)\**
* *The U.S. government will need to provide extensive technical and financial support.*

**Conclusion**

1. Poor data greatly inhibit economic growth.
2. The human and capital resources exist to attack the problem.
3. **AVOIDING ACTION IS IRRESPONISBLE AND INEXCUSABLE!!!**

1. \* The Bureau of Labor Statistics is responsible for the consumer price index, employment and unemployment data, and various other related sets of data. The Bureau of Economic Analysis compiles the national income and product accounts, which include GNP, GDP, and many other aggregate statistics. The Census Bureau provides data on the population and its structure, as well as data on, for example, the population’s education, health, housing, and poverty. In addition, many other government agencies provide great detail on particular issues. [↑](#footnote-ref-1)