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Existing gaps in services statistics and how to bridge them: the Dutch approach

session 5

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Abstract
In October 1996 a group of senior officials at Statistics Netherlands representing various divisions, most of whom were involved in producing services statistics, came to a number of action oriented proposals. It is foreseen that these proposals will be implemented around the year 2000. Because the budget remains tight, because manpower reallocations in favour of services statistics are hard to realise and because the administrative burden placed on the shoulders of respondents has to be reduced, the group also proposed economical alternative data collection methods. This contribution considers the most important proposals. They concern prices, international trade, the coverage of the various sub-sectors and the data collection. In a special chapter examples are given of the customer oriented approach newly adopted by Statistics Netherlands.

Remarks:
The views expressed in this paper are those of the author and do not necessarily reflect the policies of Statistics Netherlands.

1. Introduction

Statistics on services lag behind those on the primary and secondary economic sectors *qua* coverage and detail. As in most other national statistical institutes a relatively large part of the manpower of Statistics Netherlands is still allocated in a way that does not reflect the economic impact of services in the late nineties.

In October 1996 a group of senior officials at Statistics Netherlands representing various divisions, most of whom were involved in producing services statistics, came to a number of action oriented proposals. It is foreseen that these proposals will be implemented around the year 2000.

Because the budget remains tight, because manpower reallocations in favour of services statistics are hard to realise and because the administrative burden placed on the shoulders of respondents has to be reduced, the group also proposed economical alternative data collection methods.

This contribution considers the most important proposals. They concern prices, international trade, the coverage of the various sub-sectors and the data collection. As time flies, here and there an update was needed. Furthermore, in a special chapter examples are given of the customer oriented approach newly adopted by Statistics Netherlands.

A common element in the Dutch approach and the strategies that were discussed in previous sessions of the Voorburg Group -notably triggered by contributions of Statistics Canada- is the need to allocate limited resources in the most rational way possible. But there are some differences too.

The Dutch approach has rather dominant horizontal characteristics. By this it is meant that most proposals envisage all services sectors. The “Canadian” approach focuses more on the heterogeneity of services: there are many services industries and many variables and they do not require to be measured with the same frequency, in the same detail and on the basis of the same sources.

The horizontal approach includes all services sectors, at the expense of the depth of the information collected. Although this approach ordinarily will be sufficient for the most important internal customer, i.e. the national accounts department, this does not satisfy the specific and detailed information needs of many external customers. Therefore, supplementary to the horizontal approach, our office strongly promotes contacts with individual enterprises, branch organisations and policy makers. In recent years, many of those contacts have been established at a decentralised level. This has led to a better tuning to the information needs of our clients.

2. Challenges

2.1 Growth of the services sector

Services in the Netherlands measured in terms of employment and output experienced a rapid growth. The share of the services sectors, both commercial and non-commercial (such as health and education) in GDP increased almost 15% between 1970 and 1995 at the expense of the primary and secondary economic sectors (see Table 1).

Table 1 Share of economic sectors in gross domestic product, 1970-1995

SECTOR	1970	1980	1990

1995				
	%			
Agriculture and industry	45	38	35	32
Commercial services	35	36	44	47
Non-commercial services	20	25	21	22
Total	100	100	100	100

Source: National Accounts

From Table 2 it follows, that labour volume in services (the components used here are: business services respectively other services) in the period 1970-1992 showed an increase of almost 0.9 mln. Services' share in total employment in the Netherlands has now increased to almost 70%. In the same period, employment in agriculture and industry (incl. building construction) decreased by more than 0.5 mln labour years.

Table 2 The who-is-working-for-who-matrix, changes 1970-1992 (*1 000 labour years)

	AGRICULT.	INDUSTRY	BUSS.SERV	OTHER SERV.	TOTAL
AGRICULT.	6	-66	-4	1	-63
INDUSTRY*	-2	-460	-11	8	-465
BUSS.SERV.	8	100	428	83	619
OTHER SERV	2	18	11	243	274
TOTAL	14	-408	424	335	365

Source: National Accounts * Including building construction

It is interesting to see that, if one takes a look at the allocation of employment over the economic sectors people are working for, the picture is somewhat different. This is especially true for business services. Table 2 shows that roughly 1/3 - i.e. (619-424) : 619 - of employment growth in business services has to do with outsourcing activities.

Information from tables such as the above played a role in discussions about a priority-shift in the programme of Statistics Netherlands. Initially, discussions focused on the reallocation item. We confronted the *economic impact* -in terms of value added and employment- of certain clusters of business statistics (agriculture, industry, services) with the *manpower* involved in producing those statistics. The result of a rough calculation was that approx. 20% of total personnel could be allocated to business statistics (this is about 1/3 of the manpower within the business statistics' production units). Of course, these calculations can be refined. There are some arguments against this, however.

In the first place, in the near future the manpower involved in measuring value added, growth etc. will probably decrease as a consequence of a growing use of EDI techniques (see further on). So, the perspective is that the manpower allocation issue will gradually loose impact.

Furthermore, in a customer oriented office -which Statistics Netherlands pretends to be- the starting point should be that the value of a statistic is not so much related to economic impact, but rather to the difference between social benefits and costs. Because the cost side is reasonably well known, the question proper is: how to assess the benefits? It can be argued that these

mainly depend on the actual (and/or potential?) use. So, we need performance indicators, such as the number of enquiries, the pick-up ratio of press releases, the number of references in various external media, the amounts involved in indexed contracts and in the allocation of public means based on our statistics, the number of publications sold, etc. However, a common denominator (money?) for these indicators can hardly be constructed. Questions arise, such as: how to compare the use of statistics for the purpose of public policy to other uses? Another problem is caused by the fact that one of the main *raisons d'être* for Statistics Netherlands, notably the co-ordination and integration of the enormous number of separate, aspect oriented statistics, cannot be measured by those indicators.
So, we kept telling each other, the results of the manpower allocation exercise should be interpreted with great care.
In fact this meant that substantial reallocations were not seriously considered. From this it follows that improvements in services statistics have to deal with one almost categorical imperative: they have to be financed from the existing budget.

2.2 The gaps

The demand for better statistics on the services economy is ever increasing. At present Statistics Netherlands is more or less able to satisfy its internal demand, although with regard to the many activities not yet covered in an appropriate way, estimates still have to be made. From external customers (policy makers, trade organisations, Eurostat) there is a constant pressure for more, and more detailed, information. Our office recognises that there are serious gaps with respect to the following aspects:

- *the completeness of the statistical coverage*. Recently, the Regulation on Structural Business Statistics has been accepted by the European Commission. This means that from 1996 onwards a number of core variables has to be delivered by the national statistical offices of the European Union, on an annual basis, for almost all commercial services (a series of pilots is scheduled for non-commercial services). From the private side of the information market a strong need is expressed for information outside the scope of accounting variables (notably on turnover breakdowns and on employment specifications) and on a more detailed subdivision of branches.
- *short term developments*. Time and again it turns out that the Dutch media show a greater interest in short term statistics (usually based on turnover figures) than in annual data. We find it a pity that only rather humble texts on pilot projects are devoted to services in the Short Term Indicators Regulation that is about to be accepted by the European Commission. Nevertheless, our office believes that the statistical coverage of short term statistics on services should be increased to such an extent that gradually all service sub-sectors will be covered. This is a long-term goal, as we exclusively want to make use of electronic data collection methods.
- *price statistics.* Most likely, GDP volume growth is seriously underestimated. There are neither adequate volume nor quality indicators for most sectors of the economy (notably for the services sector) available. Therefore, volume growth of many sub-sectors is derived from input figures (for

instance from labour inputs). This leads to a systematic underestimation of volume growth. At the same time, prices are implicitly overestimated.

international trade in services. The official statistics of Dutch foreign economic relations are almost exclusively confined to international trade in goods. Trade in services at present is included in the balance-of-payments statistics, produced by the Dutch Central Bank. Statistics Netherlands is seriously considering a partial take-over of these BOP-statistics, especially the international trade in services.

the micro-needs of "the field". The strong demand for sector specific information outside the scope of the accounting variables resulted in several statistical projects. Examples of these are given in paragraph 3.4.

Statistics Netherlands is challenged to produce services statistics that are both more detailed and better tuned to user's needs under the constraint that the budget will not increase during the years to come. Furthermore, there is the political claim to reduce the administrative burden placed on the shoulders of respondents. Our strategy with respect to this item will be discussed in chapter 4..

3. The action programme

3.1 Prices of services

In December 1996, a commission of economic experts under the chairmanship of Michael Boskin reported to the USA Congress on the shortcomings of the American *consumer price index* (CPI). According to this commission, the CPI exaggerates true increases in the cost of living by something like 1.1% a year.
A correction of this magnitude would have enormous implications for the budget. Around a third of federal spending, mostly in retirement programmes, is directly indexed to changes in consumer prices. Through the indexing of income-tax brackets, a change in the CPI affects federal revenues too. Correcting the 1.1% overstatement would save the government $ 1 trillion over the next 12 years. So, many politicians hope to prune public spending by simply improving statistics.
There are two well-known reasons for an upward bias in the CPI. The first has to do with the fact that the present Laspeyres-CPI is not really based on the changes in the whole cost of living, but rather on a gauge of price rises in a fixed basket of goods. This means that the CPI does not account for the effects of a substitution of products by cheaper alternatives. If the price of hardback books increases, people buy more paperbacks. Consumers do not really feel worse off, but the CPI records a price increase. The second reason is, that the CPI does not fully reflect the improved quality of many products. New automobiles are far more reliable than they were a few years ago, yet this increase in quality is not accounted for in the CPI. For the Netherlands, the latter argument should be qualified. As it is, if there would have been no corrections for quality improvements, the inflation figure would have been substantially higher than is the case at present. On the other hand there is no reason to trivialise the measuring problems, as their scope and seriousness (caused by the accelerating rate of new ranges of products) have increased to a large extent.
It is not only the CPI that causes difficulties. The *producer price index* (PPI) suffers from similar problems, notably with respect to the improved quality effect. Prices of telecommunications equipment such as fax machines and

modems remained stable or even have gone up in recent years according to the official figures. However, if one adjusts for the gain in power and speed, true prices have actually dropped substantially. Because of this, for many economic sectors there are no adequate volume indicators of output available. This probably is especially true for many dynamic services sub-sectors. Recently, supported by the stormy rise of information technology in banking, software industries, legal services, wholesale trade and communications, many new products have been introduced, which are not included in the PPI. This means, that price increases are overestimated and that the growth of the services economy and of total GDP is systematically underestimated. So, the paradoxical picture that results, a productivity slowdown in the services economy, is probably strongly biased.

It might turn out that priorities within national statistical institutes, at least in the Netherlands, gradually need to be focused not so much on the CPI, but mainly on PPI matters. The reason for this, admittedly speculative, possibility is that we believe that a concept of inflation can be developed better tuned to the perception of consumers than the present one. If this were to occur (and our office will work hard on that), the discussion about the CPI-bias would lose momentum. A similar scenario with respect to the volume figures of substantial parts of GDP is out of the question.

An extra argument for a priority shift in favour of a better PPI is given by developments within the European Union. According to the Stability Pact that recently has been concluded , any EU country is under the obligation to pay a high fine if government budget shows a deficit *and* at the same time the economy is not in a phase of a recession. Because the latter concept is only quantifiable by using volume growth figures of GDP, it is to be expected that a proper GDP-deflator and thus a proper PPI will become of more importance in the years to come. This probably places a strong claim on statistical institutes.

The policy of Statistics Netherlands is as follows. In our long-term working programme the development of price statistics for services is given a high priority. Furthermore, the 1995 revision of the National Accounts explicitly pays attention to the deficient volume indicators.

Also, in 1998 alternative figures on the volume growth of (parts of) GDP will be published. Statistics Netherlands would welcome open discussions with both experts and users of our statistics with respect to these figures, which might deviate substantially from the present volume indicators. This road, hopefully, will lead to practical solutions that yield understandable and workable figures. In short, we aim at: the acknowledgement of the urgency of the problems, (international) co-operation, concrete progress in the short run and an open discussion about the experimental results.

3.2 International trade in services

Statistical coverage by Statistics Netherlands of Dutch foreign economic relations at present is almost exclusively limited to international trade in goods. As it is, other important phenomena, such as international trade in services, or capital and investment flows between the Netherlands and other countries are hardly covered as yet. It is recognised that this imbalance should be corrected as soon as possible.

A relevant aspect in the discussion is, that the Dutch Central Bank seriously considers transferring part of its balance-of-payments (BOP) statistics to Statistics Netherlands. The present monitoring system of the Bank does not comply with the new IMF requirements and the European system of national and regional accounts, especially after the start of the European Monetary Union, and the Bank is reluctant to build a new system.

There are a number of arguments in favour of taking over a part of the BOP-statistics, including the trade in services. Recently, conceptual differences between the National Accounts' guidelines and those for the IMF BOP almost disappeared. Furthermore, once this task has been taken on, the demarcation line between goods and services can be drawn more explicitly by Statistics Netherlands. Besides this, the globalisation concept is a policy spearhead of our office, that will undoubtedly be better implemented if the complete current account of the BOP is included in the regular working programme. Finally, it is interesting to note that the production of the BOP is also done in a cost-effective way by a number of other statistical institutes (USA, UK, Canada).

Although discussions with the Central Bank are still no where near completion, some initiatives have already been taken by Statistics Netherlands to anticipate to a possible take-over.

Two pilot projects -both are making use of already available data- aim at finding out what kind of information can be used from the individual enterprises' administration on the import and export of services. One of these pilots concentrates on about one hundred large enterprises. These enterprises are not only service providers in an institutional sense (i.e. their main activity consists of providing services) but industrial enterprises with an expectedly high service turnover realised abroad too, are selected. This is in line with the idea that a full coverage of the international trade in services should be realised (i.e. on a functional basis, which means that the focus is placed on the service products as such and not on the enterprises that export or import them). We believe that this is the best way to find out which information on the international trade in services is available in the enterprises' administration and what the specific problems are.

Although the pilot results are not published yet, it is foreseen that the information that can be derived from already existing sources will not suffice. As it is, data on specific service products are lacking and the country breakdown is limited to respectively EU and non-EU.

Therefore, next to the enterprises' administration, it is our intention to exploit several other sources simultaneously. These sources are: the VAT register, the Intrastat system and information derived from the BOP monitoring system currently used by the Dutch banks. The use of the Intrastat system has the advantage that the integration with the international trade in goods is greatly enhanced. Other independent systems would make it almost impossible to properly deal with the existing linkages between goods and services. Integration with statistics on foreign affiliate trade and on foreign investment is also easier in this way.

3.3 Towards a complete statistical coverage of the services sector

Commercial services

Although the great majority of commercial services is statistically covered (by means of annual statistics which focus on accounting variables) there still are some gaps for wholesale and retail trade, transport, communication, services to businesses and to persons, financial intermediation and real estate activities. It is our intention to reach a complete coverage of all services sub-sectors around the year 2000. Where possible, use will be made of registers, notably those of the tax authorities (see chapter 4).
Our short-term statistics (for most services only the turnover is included in the questionnaires) show a pattern that is more scattered. Notably, there is no data collection for large parts of the commission and wholesale trade, transport and business services. In the coming years all gaps will be bridged by making use of the VAT register, that contains turnover data for individual enterprises. Data collection for new short-term statistics will be done on a quarterly basis, unless the sensitivity to cyclical fluctuations justifies a monthly observation.
The availability of an up-to-date business register is of the utmost importance for the success of these plans. A good classification of the various sub-sectors is particularly indispensable. As this is not yet the case, several “cleaning actions” of this register are planned.

Non-commercial services
The existing statistics on non-commercial services are more heterogeneous than those on commercial services. Besides the statistics that describe the cost structure and the financing of the institutions involved, there are many statistics that present an overall picture of certain aspects such as health care or leisure activities. Because of this, non-commercial services at the moment are described in a scattered, incoherent way. For the years to come we intend to fill several of the gaps. Examples include: parts of health care and cultural activities, religious and professional organisations, trade unions. A complete coverage of non-commercial services will, however, not be reached.

Eurostat regulations
For many years the European Community expressed a need for more statistics on services. Notably in the recent Eurostat Regulation on Structural Business Statistics (SBS) large parts of the services sector have been included. The position of services in the regulation on Short Term Indicators (STI), however, is only very marginal.
Although for the first time in history services at a European level have been explicitly mentioned (notably in the SBS regulation), the statistical requirements are not evenly spread over the various branches. For industry and building construction the information needed is more detailed than for most commercial services. Non-commercial services are almost non-existent in the regulation. The main reason for this is rather trivial: for industry there is already plenty of data readily available within the national statistical institutes, whereas the opposite is true for the non-commercial services. The consequence is that (in a period of tight budgets and a necessary reduction of the administrative burden) the extra number of details that have to be delivered in the framework of the regulations, notably for industry and building construction, will mean that the few resources left will hamper the

further development of services statistics is considerably in the years to come. If the requirements of the regulations were to secure a satisfactory coverage of the needs of all users this allocation of resources would be acceptable. But as the regulation mainly satisfies the needs for macro-economic analysis, a further development of services statistics is still needed.

3.4 The new customer oriented approach

An important element in the overall strategy of Statistics Netherlands is to enlarge both the actual use and the scope of its information. Several office-wide initiatives (such as the creation of StatLine, a national statistical data bank for the Netherlands in which every single figure will eventually be fully integrated) aim at a better tuning to customer needs.
Until recently, services statistics in our office almost exclusively were guided by the information needs of the national accounts department. This situation is changing rapidly. By now, many intensive contacts with external customers have been established. Thus, the over-emphasis on national accounts gradually disappears. Some initiatives which have recently been taken in the field of services statistics and which hopefully will lead to a more balanced supply of statistics, will be considered here, i.e.: widening the scope of the data collection and new forms of public-private partnerships.

Scope of the questions

In 1995 a small task force consisting of Eurostat and the Dutch and Danish statistical offices was established in order to advocate a new approach to develop business services statistics in the European Union.
From discussions with representatives of business service organisations it soon became clear that the information derived from the existing statistics (i.e. the production statistics with their large number of accounting data) was only used to a limited extent. Many enterprises shared the opinion that these annual questionnaires take too much time to fill in, that the user's value of the information collected is limited and that, because of this, the information given is not always accurate, despite the fact that the surveys are -in the Netherlands- of a compulsory nature. As stands to reason, our office subsequently needs a relatively long time to complete the statistical throughput. Publication of the annual results usually takes about one year. This lack of timeliness further limits an effective use by potential users.
While the detailed statistics derived from the profit and loss account are only marginally used by enterprises, at the same time it also appeared that there is a heterologous information need that is not yet satisfied. For instance, many enterprises are interested in a differentiation of branch turnover by product as well as by the users of those products.
The task force strongly advocated to contract experienced consultants from branch organisations whenever new surveys or questions are being prepared. In fact, this should be a *sine qua non.* This guarantees particular experience from the side of a sector itself. Thus, it precludes that information requested is either only with difficulty, or not even at all, answerable by enterprises. Besides, this procedure might lead to relevant additional questions. As it turned out, branch organisations are willing to co-operate. Obviously,

statistics that are objective, reliable and undisputed represent an enormous advantage. So, both for the expertise work as with regard to the mobilisation of respondents it was proposed to establish partnerships with branch organisations.

The recommendations of the task force to Eurostat's *Co-ordinating Committee for the Statistics on Services* resulted in 4 pilot projects, one of which surveys computer and related activities (ISIC Rev 3, 72.10 - 72.90): the IT-project, co-ordinated by Statistics Netherlands. In this project, a consultant coming from the IT-branch itself was assisting with specific know-how and advice in all project phases. The project goes beyond normal accounting data and requires in-depth knowledge of the sector. With the assistance of this consultant, the task force endeavoured to elaborate on a number of important indicators for which data should be collected. Some of these, notably the accounting variables, will be covered by the SBS regulation. In addition, variables based on a micro-economic point of view were included in the questionnaires, such as on: *employment qualifications, globalisation, breakdown of turnover by client's category and by product, concentration of clients, innovation*. Moreover, each of the other 4 EU countries participating in this pilot had its own contacts with branch specialists. This resulted in a fine-tuning of the common part of the questionnaire to country-specific circumstances. For instance: in practice, it soon turned out that a CPA breakdown of IT-products as advocated by the UN, did not prove feasible, because the inter-country differences in this dynamic sub- sector were too great.

Although the results of this pilot (and of the other 3 pilots) are not yet published, the countries involved are enthusiastic about this approach. The members of the Voorburg Group will be informed in detail about further experiences.

Public-private partnerships: the case of the hotel and catering industry

For some considerable time now, Statistics Netherlands has had a central, near to monopolistic position in the collection and dissemination of statistical information. As has been said earlier in this contribution, during the last decades the market for statistical information became segmented from a user's point of view. This led to some changes at the supply side, as private market research agencies discovered the hole in the market for sector specific information. At present, quite a few branch organisations in the Netherlands are (occasionally) making use of the services of these agencies and their number increases. Some of them even started their own surveys. An example of the latter is the trade organisation for the hotel and catering industry, in Dutch: the *Bedrijfschap Horeca en Catering* (BHC).

BHC surveys more than 1,000 (large) enterprises. The sample of Statistics Netherlands consists of some 3,500 enterprises (size classes are evenly spread). Both our office and BHC used to publish different information on different points in time. This led to confusion within the branch. Entrepreneurs complained that they were not capable to anticipate trends properly. Furthermore, policymaking and evaluation of the effects by the various parties concerned were hampered by this lack of unequivocal figures.

Therefore, Statistics Netherlands and BHC decided to co-operate. After some negotiations, a so-called *strategic alliance* has recently since been signed. The first concrete output of this alliance is a quarterly publication that is clearly recognisable as a mutual product. It is the intention of both parties to gradually extend the co-operation to the input side. As it is, most of the questions in the two separate surveys are common. A common data base would certainly lead to less costs and to a substantial reduction of the respondent's burden. The road to this mutually shared data base will undoubtedly be long and winding as many problems still have to be solved. To mention but one: the confidentiality of the individual enterprises' figures should always be guaranteed. However, the good relationship with the branch that has been established in recent years, is encouraging.

4. The data collection strategy for services statistics

One of the strategic goals of our office is to reduce the administrative burden caused by our paper questionnaires by making use of electronic media, notably central registers and EDI techniques. This goal fits well into the approach with regard to services statistics that has been outline in the above. As it is, electronic data collection leads to a reduction in the workload, because part of data collection and data correction will become superfluous. Thus, the perspective is that bridging the gaps in the services statistics will become less dependent on the available manpower.

At present the services statistics are for a large part based on survey forms filled in by enterprises. It is our intention to renew the data collection drastically during the coming years by making use of registers of tax and social security authorities and supervisors, where ever possible.

For the annual economic statistics on services it has been decided that from 1998 onwards, data that are available in a central government register will not be collected anymore at the individual enterprises' administration, if from pilot projects it appears that there are only slight differences with the paper-and-pencil-information collected at present. As the files of the fiscal authorities are the most important registers at stake here, this means that as from 1998, data gathered by the tax authorities for a proper taxation of enterprises, will be collected at our Ministry of Finance and not at the enterprise's premises anymore. These files include the annual profit and loss account and the balance sheet of individual enterprises, inclusive of some details (wages, purchases, sales).

Furthermore, it is our conviction that the VAT register (containing turnover figures on a monthly base *per* enterprise) that is also available at our Ministry of Finance will become a dominant source of information for short term statistics. Some pilot projects to test the usefulness of the VAT-register are already underway. The first results are promising.

Of course, these new data collection methods have consequences both for the delineation of statistical units and, in the end, for the statistical results. Most likely, if the present building blocks (i.e. the legal units on which our general business register is based) are replaced by administrative (i.e. fiscal) units, employment and turnover figures will be affected. Although for many statistics a satisfying micro-integration of legal and administrative units will prove feasible (especially in those areas where small scale enterprises are dominant) it is still too early to jump to conclusions.

The tax files do not include details on e.g. turnover, costs and import and export by product. Therefore, for this kind of information the individual enterprise will remain the unit of interrogation. We plan to do this -to the largest extent possible- by using Electronic Data Interchange. Because services enterprises for the greater part belong to the size classes small and medium and EDI-techniques are especially appropriate for large companies (since their administration is electronically accessible) for a part of the information needed a paper questionnaire will probably remain indispensable. However, because the number of necessary details is less for small enterprises, the tax files, supplemented with data from wage tax and social security files, might be sufficient. On the other hand, as yet there are still no registers available for items such as turnover breakdowns, investments, expectations and last but not least, all kinds of branch-specific questions.
Data collection as outlined above is rather different from present practices. This means that a great effort is needed to realise this transformation. The work of several hundreds of employees will disappear or change dramatically. In many areas in our office the input transformation is already in full swing.