

Comment: Stability and Commercial Information – An Economic Approach and a Look at China

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China's transition to a market economy is accompanied by an unprecedented economic growth. However, due to structural problems the economic dynamism seems to have been running out of steam since the late 1990s. In its recent report "China in the World Economy. The Domestic Policy Challenges", the OECD attributes the structural problems to a lack of integration in factor markets, among business segments, and among regions. The OECD report is comprised of an impressive number of sector studies and analyses of economy-wide issues. It is based on the commonly available set of Chinese government data without questioning whether we can rely on this official version of reality. In contrast, the question of the quality of official information has been frequently picked up in many press reports and by a number of economists over the past years.

Since 1997, doubts about the accuracy of officially published statistics seem to have been supported by discrepancies between the growth of key expansion indicators such as power consumption and freight traffic and GDP growth. In its publication "World Economic Outlook" of December 1998, the International Monetary Fund acknowledged the scepticism and tried to explain these discrepancies. It raised doubts as to whether statistical data are entirely reliable and concluded that "... the quality of Chinese statistics remains a major difficulty for both policymakers and outside analysts, both in the national accounts and in other areas". In his article "What's Happening to China's GDP Statistics" of September 2001 Thomas Rawski raised new strong objections to the reliability of Chinese official economic information. Comparing China to other Asian economies he doubted whether China has been able to achieve high growth together with rising unemployment, sluggish demand, large excess capacity, mild deflation, and low expectations after 1998.

The deficiencies in China's statistical system renders the assessment of the Chinese economy a challenging task. We should be suspicious that the use of official data to interpret the outcome of economic reform might lead to wrong conclusions. However, shall we be confined with the fact that official economic information has quite a limited reliability, expressed in the popular quip among Beijing taxi drivers that the only truth in the *Renmin Ribao* (People's Daily) is the date? An academic way out of this dilemma might be offered by Doris Fischer in her research project on the relationship between the information system and the economic performance and stability in China. Fischer is going to analyse the impact of information on the econ-

omy from the perspectives of the new institutional economics (NIE). This approach seems to be very promising, knowing that the quality of statistical data largely depends on the circumstances in which they are constructed. We know that for the collection, use, and dissemination of statistics a complex system of norms and institutions governing the behaviour of those doing the statistical work is required. Thus, Fischer focuses on the institutional setting, on norms and regulations for the selection, processing, dissemination, and manipulation of information as well as on the types of organisations emerging from these norms and regulations.

In contrast to the assumptions of the neoclassical economic theory, the NIE accepts a world of non-zero transaction costs, incomplete information and limited rationality and is based on methodological individualism. According to Douglas North, in this different world institutions matter, they constantly interact with each other and with organisations in a competitive manner bringing about institutional change. Competition requires organisations to invest in knowledge, which shapes evolving perceptions about opportunities and choices that will incrementally alter institutions; the institutional setting determines the type and orientation of knowledge received by individuals and organisations. Contrary to the neoclassical rationality assumption, perception depends on individual or collective mental constructs used to reduce complexity. Institutional change is mostly incremental and path-depending, related to the economies of scope, complementarities, and network externalities of the institutional matrix. Starting off with these basic propositions of institutional change, Fischer might be able to find answers as to how the institutional arrangement of the information system influences the transaction costs of those demanding and supplying information. Her research might also provide further results on the way the institutional arrangement induces changes to the economic system, and influences economic and social stability.

Fischer hypothesizes that the institutional arrangement of the information system matters and that it has an effect on economic and social stability. She bases her assumption on the fact that processed and published information are not purely objective data but biased due to pre-selection and pre-processing. In order to reveal the economic role the information system plays, Fischer adds the communication perspective to the NIE approach, that is the analysis of the creation, transmission, and absorption of knowledge. In order to reduce the complexity of the knowledge environment, she concentrates her research on three sub-systems of information, that is the statistical system, the economic research system and the media system. Looking at one of the latest publications on the relationship between economic development and knowledge such as the World Bank Institute's report *China and the Knowledge Economy*, the relevance of Fischer's approach to integrate the perspective of communication into research on information and stability becomes obvious. There is an urgent need for a critical analysis of how knowledge is created, transmitted and absorbed in China.

Moreover, Fischer's research on China might serve to gain a better understanding of the relationship between the information system and the economic system in other transition countries. It might as well broaden our comprehension of the interaction of information processing and policy and the concept of stability. However, in order

to come to more general conclusions on the nature of this interaction in different countries, Fischer might have to consider the question whether and how a cultural perspective reflected in mental models and perceptions (for example North, 1993; Eggertson, 1993) has to be added to her research approach.

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