“That’s only statistics”: Recording PPPs in national accounts

Damien Piron
PhD Student
University of Liège (Belgium)
Setting the stage

Since 1992, public deficit and debt of EMU member states are limited to 3% and 60% of GDP.

Figures calculated on basis of a harmonized framework: the European system of national accounts (ESA).

Consequence: widespread development of national accounting techniques aiming at circumventing these budgetary rules; Eurostat as watchdog.
Case study: the tale of PPPs in Flanders

Since 2004, the Flemish region has built many schools, healthcare infrastructure, roads, etc. through **PPPs**

**Fiscal incentive**: these expenditures used to be classified “off balance sheet”

However, Eurostat recently decided to reclassify all Flemish PPPs “**on balance sheet**”
The statistical treatment of PPPs in the ESA

Eurostat’s seminal decision (2004)

“Eurostat recommends that the assets involved in a public-private partnership should be classified as non-government assets, and therefore recorded off balance sheet for government, if both of the following conditions are met:

1. the private partner bears the construction risk, and
2. the private partner bears at least one of either availability or demand risk”.

ESA 2010

“Main risk and reward elements:

(a) construction risk;
(b) availability risk;
(c) demand risk;
(d) residual value and obsolescence risk;
(e) the existence of grantor financing or granting guarantees, or of advantageous termination clauses […]

In addition, when the assessment of risks and rewards is not conclusive:

(a) the degree to which the government determines the design, quality, size, and maintenance of the assets;
(b) the degree to which the government is able to determine the services produced, the units to which the services are provided, and the prices of the services produced (i.e. supply risk)”.
Research questions and methodology

**Research questions:** how did the main actors experience this process? And what does it tell us about the functioning of the EMU?

**Interpretive analysis:** Interviews with Belgian and European officials (senior civil servants, political advisors and national accountants)
“External” actors’ opinion about those changes

Supportive opinion (technical level)

- **Intrinsic difficulty of the task**
  “A legal clause can be interpreted in one way by some people but in another way by others. Therefore, there is always a discussion” (I4, NAI)

- **Learning process**
  “Ten years ago, one did not exactly know what a PPP contract was. And we are not jurists” (I4, NAI)

- **Eurostat’s internal consistency**
  “The rules have been refined. Sometimes it’s surprising, sometimes it isn’t but the basis is the same” (I3, Flemish PPP knowledge center)

Criticism (political level)

- **Lack of clarity and previsibility**
  “Eurostat casuistry is difficult to understand because each case tends to underline criteria, which are sometimes unexpected” (I16, EIB)

- **Depoliticization of national accounting**
  - “What bothers me is that delegation to experts, who are certainly very competent but do not pay attention to macroeconomic consequences” (I14, former EIB)
  - “At Luxembourg, they say: ‘that’s only statistics’” (I3, Flemish PPP knowledge center)
Eurostat officials’ point of view

What do Eurostat officials have to say about their PPP-related statistical case-law?

Three main modes of justification put forward
I) Monitoring as a cat-and-mouse game

“When you have a set of rules, people try to get around them. [...] Therefore [...] you have to evolve your rules regularly to keep up” (I13, Eurostat).

→ Since governments might be prone to try to “circumvent the rules”, Eurostat has “to go hunting” (I11, Eurostat)
II) Negative experiences with PPPs in the past

“And the bad example, it’s Portugal” (I11, Eurostat).

“In Belgium, the objective behind using PPPs is to put everything off-balance. [...] They don’t care about paying a fortune for a PPP – even if it’s cheaper in another form […]. And for me, it’s a little bit weird because if I was managing public money, I would try to make a good deal” (I15, Eurostat).

“It’s a good way to make the private sector very rich” (I13, Eurostat).
III) An evolving international context: the 2008 SNA

*De facto hierarchy* between the SNA and the ESA: “We cannot move too much away from the 2008 SNA” (I11, Eurostat)

Yet, the 2008 SNA is quite vague, since it is a compromise between two competing approaches (“risks and rewards” *vs* control) → When it comes to operationalize these broad guidelines, Eurostat has some leeway

Implementation of the 2008 SNA as a “*window of opportunity*” to formalize a more conservative approach in the statistical treatment of PPPs in order to avoid potential abuse/misuse in the future
Conclusion: Is it “only statistics”? 

What does the concept of “statistical independence” mean? Even Eurostat’s decisions are context-laden.

Despite its political consequences, the statistical recording of PPPs was framed as a “technical” issue, which had to be protected against any kind of political interference. Case for democratic legitimacy.

The reliance on “independent” bodies (ECB, national fiscal councils, etc.) seems to be(come) a fundamental feature of the E(M)U.

Isn’t it time to “repoliticize” public finance statistics?
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PhD Student
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damien.piron@ulg.ac.be