



Written by [Bruce Walker](#) on July 13, 2011

## Growth Estimates for PIGS Revised Downward — Again

The interim budget, upon which so much of the bailout of the nation rested, greatly understated the budget gap. (The underestimation of the budget shortfall over an earlier projection was by almost one-third.)

As a consequence, the Greek government has agreed to even harsher austerity measures in order to qualify for its second European Union bailout. The Greek Finance Minister said: “The current shortfall of revenues is expected to be covered in the second half of the year, as a result of the tax measures of 2011-2012 mid-term budget plan.” Is Greece unique in downward revisions of economic growth? Hardly. On July 2, 2011, the International Monetary Fund, which had projected an annual growth rate of 1 percent for Ireland, [reduced its forecast of growth](#). The estimated growth in the Irish economy — at least as of this month — is only .5 percent, or practically no growth at all.



A few months before, on March 22, the Portuguese government revised its estimated growth for this year. When the budget was prepared, the estimated growth was .2 percent, effectively non growth. In March, however, [Portugal revised downward its forecast](#). Now it expects “negative growth” or reduction in the economy of the Iberian nation in the amount of .9 percent for 2011.

The same story holds true for the other one of the PIGS, Spain. The government forecast earlier a growth of 1.1 percent in the Spanish economy for 2011. As of July, that official Spanish estimate has been [revised downward to .8 percent growth](#) for the year. As with the other PIGS, weak or negative growth exacerbates the problems of sovereign debt. But the core difficulty is even more serious.

When politicians and bureaucrats create deliberately misleading data on economic growth, the effect on any sensible investor, businessman, or owner is to instinctively mistrust estimates. If it begins to appear that growth numbers must be downgraded, if that data is to have meaning, then wise people will simply view government estimates as political promises.

Business, however, must have good data to operate well. “Good” data in this sense does not mean falsely rosy gloss. Business reports done by good accounting firms, for example, will include exceptions and caveats. If business is bad, the report will also reflect that just as accurately as it can be reflected.

Estimates of business activity ought to have the same seriousness about integrity that we would expect to find in the medical report of a hospital patient. If the patient is feverish, then a graph which falsely showed normal temperature would be dangerous and possibly criminal. The proper medicine cannot be



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administered if the diagnosis and medical chart are constructed to be pleasing and not true. Right now the patients in the PIGS ward of the hospital are very sick, and politicians are treating them with snake oil.

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