

How governments reduce the official inflation rate

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Is the official government inflation rate lower than the real rate of price increases? There are enormous benefits to a government understating the rate of inflation - looks better politically, lower payments on indexed linked pensions and wages among others. There is evidence that the UK and US governments both understate the true inflation rate (by about 5% per annum). Here is a detailed article on how the Argentinian government has been doing the same thing but is a little further along the road of false statistics (understating by about 15% per annum) and intimidation of independent statisticians. Perhaps a window of the future of inflation in the UK and US (and much of the rest of Europe I imagine).

Since 2007, when Guillermo Moreno, the secretary of internal trade, was sent into the statistics institute, INDEC, to tell its staff that their figures had better not show inflation shooting up, prices and the official record have parted ways. Private-sector economists and statistical offices of provincial governments show inflation two to three times higher than INDEC's number (which only covers greater Buenos Aires). Unions, including those from the public sector, use these independent estimates when negotiating pay rises. Surveys by Torcuato di Tella University show inflation expectations running at 25-30%.
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PriceStats, a specialist provider of inflation rates which produces figures for 19 countries that are published by State Street, a financial services firm, puts the annual rate at 24.4% and cumulative inflation since the beginning of 2007 at 137%. INDEC says that the current rate is only 9.7%, and that prices have gone up a mere 44% over that period (see chart).

The government has gone to extraordinary lengths, involving fines and threats of prosecution, to try to stop independent economists from publishing accurate inflation numbers. The American Statistical Association has protested at the political persecution faced by its Argentine colleagues, and is urging the United Nations to act, on the ground that the harassment is a violation of the right to freedom of expression.

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