Lies, Damned Lies, and Government Statistics

November 8, 2013

There are three kinds of lies: lies, damned lies, and statistics. – Mark Twain, 1906[1]

With all due respect to Mr. Twain, he did not extend the thought far enough – government statistics trump all lies. But then again, the government's role as both a preeminent statistical gatherer and manipulator is a phenomenon more applicable to our time. Today, various U.S. bureaus and agencies monkey with every key macroeconomic indicator, most notably inflation, production (Gross Domestic Product), and unemployment. To wit:

Inflation –

Since the early 1980s, the Bureau of Labor Statistics (BLS) has engineered a lower "inflation" rate in the Consumer Price Index (CPI) with such maneuvers as:

- Accounting for "quality" improvements in goods ("hedonic adjustments");
- Replacing items in the basket of goods measured with lower-price items ("substitution");
- Decreasing the impact of rising prices by any particular good within the basket ("geometric weighting"); and
- Changing how rents are measured ("imputation").

The results? According to ShadowStats, which calculates inflation with the previous CPI methodology, inflation has been understated by five to six percentage points over recent years.

Gross Domestic Product –

GDP, to the extent it is relevant at all, must be assessed in *real* terms (discounting the effects of inflation). Otherwise, how else could you discern economic growth from a mere rise in prices? Therefore economists “deflate” GDP statistics by the rate of inflation to determine real changes in economic output. Curiously, instead of utilizing the CPI in such calculations, the government utilizes a different price index entitled Personal Consumption Expenditures (PCE). Why? As the PCE index is chronically lower than the CPI, real economic growth appears higher than if the CPI was used. Not content with just this trick, the Bureau of Economic Analysis (there are a number of U.S. agencies that compile economic statistics) rolled out new guidelines for GDP calculation on July 31, 2013: henceforth, expenses paid for research & development will be included to “capture” the benefits of intangible assets. GDP jumped 2.7% with the addition (every little bit helps) and future growth is projected to be higher with the change.

Unemployment –

As of September 2013, unemployment stood at 7.2%, its lowest level since December 2008 (7.3%) which appears an impressive rebound given its peak of 10.0% (October 2009). But the Labor Participation Rate, the statistic that measures the actively employed percentage of an economy’s workforce, stands at a mere 63.2% – a level not observed since 1978. The discrepancy? Literally, millions of discouraged unemployed workers have ceased looking for work. In BLS calculations, if you do not have a job, you are unemployed. But if you have been looking for years and have become so disillusioned as to end your efforts, you are no longer unemployed – but you still do not have a job.

We understand that many areas of the economy cannot be measured with any precision. In fact, the Austrian school of economics, to which we subscribe, was the first to point out the difficulties of measuring something as seemingly innocuous as the price level.

Because of such difficulties, it is reasonable to believe economists seek to improve their accuracy and worth. But when do refinement and improvement become, not a purpose, but a pretense for goosing the numbers? The aforementioned machinations prove we are already there.

However, *worse* than the manipulation of statistics to placate the populace and the financial markets is the *reason* the government is so interested in statistics. As explained by the noted economist Murray Rothbard:

Statistics are the eyes and ears of the bureaucrat, the politician, the socialistic reformer. Only by statistics can they know, or at least have any idea about, what is going on in the economy. Only by statistics can they find out . . . who "needs" what throughout the economy, and how much federal money should be channeled in what directions.[2]

Statistics are the critical tools of the central planners. Their growth in usage tracks the retrenchment of free markets from the economic landscape. Their manipulation reflects the deterioration of an economy.

Twain may have been a great author of fiction, but the U.S. government wins the Pulitzer.

Endnotes:

1. Twain, Mark. *Chapters from my Autobiography* (Washington, DC: American Enterprise Association, 1960), p. 16.

2. **Statistics: Achilles' Heel of Government** by Murray N. Rothbard[This essay was published in *Essays on Liberty*, VIII (Irvington-on-Hudson, NY: Foundation for Economic Education, 1961), pp.255-261, and in *The Freeman*, June 1961,