Don't Like the Numbers? Change 'Em

If a CEO issued the kind of distorted figures put out by politicians and scientists, he'd wind up in prison.

By MICHAEL J. BOSKIN

Politicians and scientists who don't like what their data show lately have simply taken to changing the numbers. They believe that their end—socialism, global climate regulation, health-care legislation, repudiating debt commitments, la gloire française—justifies throwing out even minimum standards of accuracy. It appears that no numbers are immune: not GDP, not inflation, not budget, not job or cost estimates, and certainly not temperature. A CEO or CFO issuing such massaged numbers would land in jail.

The late economist Paul Samuelson called the national income accounts that measure real GDP and inflation "one of the greatest achievements of the twentieth century." Yet politicians from Europe to South America are now clamoring for alternatives that make them look better.

A commission appointed by French President Nicolas Sarkozy suggests heavily weighting "stability" indicators such as "security" and "equality" when calculating GDP. And voilà!—France outperforms the U.S., despite the fact that its per capita income is 30% lower. Nobel laureate Ed Prescott called this disparity the difference between "prosperity and depression" in a 2002 paper—and attributed it entirely to France's higher taxes.

With Venezuela in recession by conventional GDP measures, President Hugo Chávez declared the GDP to be a capitalist plot. He wants a new, socialist-friendly way to measure the economy. Maybe East Germans were better off than their cousins in the West when the Berlin Wall fell; starving North Koreans are really better off than their relatives in South Korea; the 300 million Chinese lifted out of abject poverty in the last three decades were better off under Mao; and all those Cubans risking their lives fleeing to Florida on dinky boats are loco.

There is historical precedent for a "socialist GDP." When President George H.W. Bush sent me to help Mikhail Gorbachev with economic reform, I found out that the Soviet statistics office kept two sets of books: those they published, and those they actually believed (plus another for Stalin when he was alive).

In Argentina, President Néstor Kirchner didn't like the political and budget hits from high inflation. After a politicized personnel purge in 2002, he changed the inflation measures. Conveniently, the new numbers showed lower inflation and therefore lower interest payments on the government's inflation-linked bonds. Investor and public confidence in the objectivity of the inflation statistics evaporated. His wife and successor Cristina Kirchner is now trying to grab the central bank's reserves to pay for the country's debt.

America has not been immune from this dangerous numbers game. Every president is guilty of spinning unpleasant statistics. President Richard Nixon even thought there was a conspiracy against him at the
Bureau of Labor Statistics. But President Barack Obama has taken it to a new level. His laudable attempt at transparency in counting the number of jobs "created or saved" by the stimulus bill has degenerated into farce and was just junked this week.

The administration has introduced the new notion of "jobs saved" to take credit where none was ever taken before. It seems continually to confuse gross and net numbers. For example, it misses the jobs lost or diverted by the fiscal stimulus. And along with the congressional leadership it hypes the number of "green jobs" likely to be created from the explosion of spending, subsidies, loans and mandates, while ignoring the job losses caused by its taxes, debt, regulations and diktats.

The president and his advisers—their credibility already reeling from exaggeration (the stimulus bill will limit unemployment to 8%) and reneged campaign promises (we'll go through the budget "line-by-line")—consistently imply that their new proposed regulation is a free lunch. When the radical attempt to regulate energy and the environment with the deeply flawed cap-and-trade bill is confronted with economic reality, instead of honestly debating the trade-offs they confidently pronounce that it boosts the economy. They refuse to admit that it simply boosts favored sectors and firms at the expense of everyone else.

Rabid environmentalists have descended into a separate reality where only green counts. It's gotten so bad that the head of the California Air Resources Board, Mary Nichols, announced this past fall that costly new carbon regulations would boost the economy shortly after she was told by eight of the state's most respected economists that they were certain these new rules would damage the economy. The next day, her own economic consultant, Harvard's Robert Stavis, denounced her statement as a blatant distortion.

Scientists are expected to make sure their findings are replicable, to make the data available, and to encourage the search for new theories and data that may overturn the current consensus. This is what Galileo, Darwin and Einstein—among the most celebrated scientists of all time—did. But some climate researchers, most notably at the University of East Anglia, attempted to hide or delete temperature data when that data didn't show recent rapid warming. They quietly suppressed and replaced the numbers, and then attempted to squelch publication of studies coming to different conclusions.

The Obama administration claims a dubious "Keynesian" multiplier of 1.5 to feed the Democrats’ thirst for big spending. The administration's idea is that virtually all their spending creates jobs for unemployed people and that additional rounds of spending create still more—raising income by $1.50 for each dollar of government spending. Economists differ on such multipliers, with many leading figures pegging them at well under 1.0 as the government spending in part replaces private spending and jobs. But all agree that every dollar of spending requires a present value of a dollar of future taxes, which distorts decisions to work, save, and invest and raises the cost of the dollar of spending to well over a dollar. Thus, only spending with large societal benefits is justified, a criterion unlikely to be met by much current spending (perusing the projects on recovery.gov doesn't inspire confidence).

Even more blatant is the numbers game being used to justify health-insurance reform legislation, which claims to greatly expand coverage, decrease health-insurance costs, and reduce the deficit. That magic flows easily from counting 10 years of dubious Medicare "savings" and tax hikes, but only six years of spending; assuming large cuts in doctor reimbursements that later will be cancelled; and making the states (other than Sen. Ben Nelson's Nebraska) pay a big share of the cost by expanding Medicaid
eligibility. The Medicare "savings" and payroll tax hikes are counted twice—first to help pay for expanded coverage, and then to claim to extend the life of Medicare.

One piece of good news: The public isn't believing much of this out-of-control spin. Large majorities believe the health-care legislation will raise their insurance costs and increase the budget deficit. Most Americans are highly skeptical of the claims of climate extremists. And they have a more realistic reaction to the extraordinary deterioration in our public finances than do the president and Congress.

As a society and as individuals, we need to make difficult, even wrenching choices, often with grave consequences. To base those decisions on highly misleading, biased, and even manufactured numbers is not just wrong, but dangerous.

Squandering their credibility with these numbers games will only make it more difficult for our elected leaders to enlist support for difficult decisions from a public increasingly inclined to disbelieve them.

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