



“Recent developments in price and related statistics in Argentina”

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The history of statistics in Argentina begins with the 1869 national census, evolved as most National Statistical Offices incorporating more and more statistical indicators, improving coverage and methodological robustness, and until December 2006, it can be said that the country had reliable statistics.

In 1894 the General Directorate for Statistics was created under the Ministry of Finance, until INDEC was created and continues to operate as such since 1968.

Tampering with the Consumer Price Index

The CPI was created in 1924 by the General Directorate for Statistics for the city of Buenos Aires. During the period 1933-1999 it underwent six reviews and improvements and coverage was extended to others constituencies of the country. In 2005 a new survey dealing with household expenses was collected, with the intention to use the results to review the index in 2007.

However at the end of 2007 the Head of the CPI Department, who had held the position for 10 years, was replaced by a political appointee that had the complete trust of the Secretary of Commerce, because the current Head refused to introduce changes to the methodology with which the index was calculated. The proposed and refused changes departed completely from the long proven methodology in place. As a result the Head of the National Directorate under which the CPI Department was operating resigned.

Once the new Head took Office, changes to calculate the CPI index were implemented and gross “interventions” in the professional work done by INDEC staff became “visible”. First changes were implemented in January 2007 and results published in February 5, 2007. In the six months previous to the removal of professional and technical staff, there were unfriendly and violent interventions to the ongoing professional and technical work at INDEC, endless discussions, and requests of information safeguarded by the laws on statistical secrecy - like the list of establishments where prices were surveyed- were continually requested and staff continually refused to yield. This impasse did not satisfy the Secretary of Commerce, responsible for the anti – inflationary policy of Government. Some illustrations follow.

The first changes implemented were in:

- Health Services. The lead price surveyed was the monthly fee charged by health establishments, usually known as “prepagó” (“pre-payment”), and operated as a kind of health – insurance system. The government authorized at the beginning of 2007 an increment between 18 and 22% in such fees. However, simultaneously, these establishments were authorized to offer another modality under which the monthly fee was increased only 2% but users would be charged a co-payment fee each time they used any service (for example, in each medical outpatient visit). Field staff in charge of the CPI were asked to replace the price being surveyed, considering exclusively the co-payment system, with full knowledge that this new co-payment

system was adopted by only 14% of users and INDEC was forced to assume that 100% of users had chosen it. Furthermore, no registry of what each user paid as a co-payment fee was allowed. Consequently, health service prices of this product as reported by the new CPI “rose only 2%”.

➤ Tourism. The source of prices for hotels (hotel rates) was changed. Up to December 2006, INDEC directly surveyed a sample of hotels, as of January 2007 it began to use data directly provided by the Secretary of Tourism. As a result, during 2007 the index of this component was systematically lower when compared to the corresponding month in 2006. Thus, according to the new CPI it was cheaper to take vacation in 2007 than in 2006, those able to take holidays knew better, and again the credibility of INDEC statistical figures lost.

➤ Food Supplies. Due to unfavorable changes in climate, the price of lettuce was eliminated since it increased significantly because of these changes. This change could have been less criticized, if it had been treated as an outlier.

Later on, maximum-value for monthly variations in prices were “decreed by government” decided (around 15%), and some prices observed on the field above the decreed agreement were simply replaced by data from other sources, mainly prices decided in agreements between the Secretary of Commerce and Chambers of producers or distributors.

This procedure was generalized and as a result, there was no consistency between prices published by INDEC and actual prices paid by households. To hide these differences, INDEC was instructed not to publish individual prices of a list of products, as it had been done regularly in the past.

An illustrative anecdote. In part of her declaration before an officer from the Auditing Court that investigated the so called “irregularities at INDEC during 2007”, she declared that “the new person in charge of the CPI said that the \$4 bread did not exist, that this particular bread had to cost \$2.50, because this was the price fixed by the government for the “inexpensive bread”, and further stated that if the \$2.50 bread was not available when going to the shop, most likely the bread had not been baked yet; therefore, if the price had been fixed at \$2.50 this is what had to be recorded by the surveyor.”

A new methodology?

In view of several complaints and criticism coming from, among others, the press, academic bodies, and political parties; INDEC indicated that a “new methodology” would be implemented in 2008. However, in spite of being announced and widely advertised as an ostentatious seminar in a luxury hotel in May, the new methodology was never presented in detail. The figures estimated with the new index began to be published at the end of June, and the explanation of the methodology began with barely half a page of text, later extended to a few more.

Moreover, the “National Index”, an alternative version of CPI, also estimated by INDEC, which included price variations recorded in almost half of the provincial capital cities, was discontinued. The reason for this decision derived from the fact that price changes computed in some of the cities by the provincial statistical agency¹ were clearly higher than those produced by INDEC for Greater Buenos Aires. However, some provinces went on estimating and disseminating their own CPI using the “old methodology”. This old methodology is the only one that remains in the official system of statistics to estimate the true increment in consumer prices.

The so called “new” methodology widely advertised and poorly described was consigned to oblivion when IMF started to seriously question the index. Consequently, INDEC turned things around as published in the newspaper Clarín on September 11, 2008: *Now the authorities declare that the methodology is the same as always: “The methodology was not changed”. “What was changed was the survey and with it the standards and varieties, as well as the baseline year, but all is calculated using the same methodology”* (that is, the corresponding to the 1999 baseline series, which is the one published in the INDEC Website).

The newspaper La Nación, on September 9, 2008 published: *“The Director of INDEC met with the representatives of the Directorate for Statistics, directed by William Alexander, to take measures aiming at avoiding that the IMF not exclude Argentina from its World Economic Report, a decision that is to be presented in the annual Assembly in October. Particularly, as La Nación informed two months ago, the declarations that the IMF might make are worrisome, because if it publishes that the statistics in Argentina are not reliable, this would give investors with bonds adjusted by inflation grounds to support*

¹ Argentina is a federal country and each province has its own statistical agency, which is formally autonomous from INDEC.

feelings that the government has committed fraud against them. Finally, the government succeeded to obtain that these data not be removed from the World Economic Report, but figures published did not have official approval of the IMF'.

“Contamination” of the rest of the indicators and the general problem of credibility.

As expected, manipulation of the CPI quickly produced distortions in other indexes; some from the fact that they utilize the CPI as inputs, among them are:

- The National CPI, now on hold as mentioned above, with ongoing bitter discussions with and among Provincial Statistical Offices.
- The measure of poverty and extreme poverty, calculated by the income method that utilizes the CPI to update the values of the poverty line.
- Real earnings, where CPI is employed to measure the purchasing power of wage and salaries in order to deflate the inflation of the nominal quantities, and to be able to make comparisons between the remunerations at different points in time. Statistics for 2008 for example, state that salaries went up between 20 and 30% and the price index only by 10%.
- The real exchange rate; this is an index relevant for assessing the level of competitiveness of the economy. If the official exchange rate goes up less than the inflation, the real exchange rate deteriorates, favors imports trade and harms exports. If INDEC underestimates the increase in of prices, it overestimates the competitiveness of the economy in the international
- GDP and the measurement of the value of goods the economy produces. Normally the standard is to use the gross production as baseline information. But to calculate it for some sectors – trade, transport, financial institutions -- the aggregate money value is used. If price variation is underestimated, then the growth rate of real production of those goods and services and, consequently, aggregate real GDP, is being overestimated.

Indirect contamination was also introduced, for example in:

- Monthly Industrial Estimates. In July 2007, energy shutdowns led to a drop in the steel production. This would have determined a drop in the aggregate index of production. However, INDEC released figures that showed a positive variation. How did such miracle happen? Simply because the estimator was measured without including the steel industry, arguing that *“the production of steel presents extraordinary circumstances that deserve an ad-hoc treatment”*. It is suspected that the “ad-hoc treatments” are applied every time that data do not agree with what is wished.
- Synthetic Indicator of Public Services. This index is meant to reflect the global output of different public services. It also suffered from the effects of the energy crisis of July 2007. For example, the drop in gas production led to a change in the methodology and production was replaced by consumption, which showed a positive variation. Of course the consumption includes imports of gas. That is, imports were included in this calculation as if they were national production. Another ad-hoc treatment!
- GDP. At best, there are doubts about the reliability of GDP figures. Some odd results seem to support this widespread skepticism. Consider, for example, the figures released by INDEC corresponding to the last quarter of 2008. According to that information, the component that contributed more to the economic growth in the IV quarter of 2008 is the statistical discrepancy in inventories, as it explains 3.2% of 4.9% GDP's growth!
- Continuous Household Survey. The release of the user databases was discounted in the first semester of 2007.
- Household Expenditure Survey 2004/2005. The user databases to this date have not been released.

These events had several important consequences

- Anticipations of the inflation were reinforced.

- A decrease of the values of bonds linked to the CER (Reference Stabilization Coefficient) based on the CPI. This could generate an avalanche of legal actions against the State by owners of the bonds (like the pension funds for employees of the private sector).
- The country-risk as assessed by different certifying agencies has increased
- In addition, all this has generated a very stressful work environment at INDEC, an organization that until 2006 was known to have technical and professional staff highly committed to their work. For example, the team responsible for the agricultural census was suddenly changed. This team was the one that had been working in its planning for quite a few years and their opinions were not taken into account. One consequence of such decision was that the field work was carried out in a clearly unfavorable period of the year, in the midst of a political conflict between farmers and the government.

But perhaps, the more important consequence of these developments was the crucial blow given to the public confidence that an institution such as INDEC should, and had effectively, gained. INDEC was highly trusted by Argentinean society even when it sometimes faced criticism common to National Statistical Offices, especially regarding price indices. As expected, due to actions taken, public opinion started to mistrust all indicators produced by INDEC.

Regarding the **credibility of INDEC**, an economic journalist wrote in the newspaper *Página 12*, on September 9, 2008: *“The clumsy and rushed interference in the work of INDEC by the Secretary of Commerce, Guillermo Moreno, resulted in the major political price for president Kirchner administration and, recently, for the one of his wife Cristina F. De Kirchner as concerns the legitimacy of their speeches. The fragility to gather support for initiatives that at some other time could have united the majority of people, explains the devaluation of the official speech, all due to the rude intervention in the INDEC. Every month, starting January 2007, a not credible CPI is published, all the official proposals would not be credible either.”*

Statistical secrecy

Argentina statistical law (originally approved in 1969) defines the principle of “statistical secrecy”; later on --in 1999-- clarified through an INDEC Act (“Disposición” Number 176/99) in Article 8th, which establishes that: *“Under no circumstances, lists of households, people or establishments that integrate a sample can be provided”*

The current government pressure to have access to the list of shops surveyed for the CPI finally produced access to such information. Direct pressure then followed, focused on “sample store outlets” to include in their price lists (the one given to INDEC field survey staff), the “official prices” that had been agreed during the government – firms representatives negotiations, instead of those actually paid by shoppers. When the shops found out that their data were not confidential, and that the government was not protecting them by the statistical secrecy, they refused to continue to answer these surveys and to communicate to field staff what the actual prices were.

By breaching the statistical secrecy, the fundamental principles that are the basis of the National Statistical System have been seriously damaged in Argentina.

Does this governmental “strategy”, going on for over two years now, have an explanation?

There is no valid explanation for INDEC to continue working in such a way. Damage to public trust in INDEC figures grows each day such procedures continue. Government argues that they had to “avoid, in a country sensitive to inflation, an acceleration in the inflation”, but the result was the opposite. Government also argues that the national debt, given in bonds affected by inflation, should not be increased. But this has already harmed the country, in terms of increasing risks for the nation and the drop of bonds prices. The risk that private citizens or corporations may take the Government to international courts to rule on their grievances is very high.

Besides the lack of reliable data to design public policies for Argentina, as long as this manipulation to standard statistical practices continues, we run the risk of cultivating a deadly virus that can spread to neighboring countries, and then continents in a globalized world. How does this affect the United Nations principle that by using reliable statistical information the population can control the democratic attitude of governments? Can this deplorable example contaminate other National Statistical Offices? How can the academic sector contribute to stop this manipulation as soon as possible and not in the distant future? We want wide audiences to be aware of this situation, hoping to receive ideas that can help stop and

prevent replications of this situation, as well as trying to find a reasonable way to end this period of not having reliable data available and published in and for Argentina.

Trap without escape?

A solution to the INDEC crisis does not seem simple. Perhaps a political decision to restore back to INDEC the independence (autonomy?) and transparency needed to produce robust and statistically sound public statistics is a first step; second, accept that during two and a half years wrong figures have been published, and also recognize that it is practically impossible to redo the series.

Evidently, this intervention has to stop, and people who took over the high management positions should resign. Employees that were fired in spite of having experience and that were technically good, or that went to work somewhere else with a better work environment, should be given a chance to be reinstated in their positions if they so wish. This is not just based on ethical considerations; it would also be a clear sign of a political willingness to undo gross and wrongful intervention to good practices achieved in the past by INDEC related to official statistics.

It is also necessary to evaluate the situation that made the intervention possible. Today, with some perspective, it can be seen that in the past few years before the intervention, the institution had become weak, in spite of having a democratic government. It was not possible to set up a solid, technically robust and unquestionable Statistics Board that could oversee INDEC's work; government interventions were rising and there was a loss in transparency and in the participation of members of the Academy in the internal discussions of methodology with INDEC.

Finally, paraphrasing an old saying, solution to the economical and social problems Argentina is facing is not to "brake the thermometer" that measures the fever; the solution lies in finding the causes (motives) that produced the fever.

Discussion of the paper. During discussion of the presentation, ISI delegates gave full support to identify actions that can help restore INDEC previous standard in producing technically robust and reliable statistics, promote an official position of the ISI Council regarding the issue, and support colleagues that have been unjustly fired and may want to return to INDEC the possibility to do so and help restore its credibility. The need to promote in general an autonomous status of National Statistical Offices was also mentioned. Finally, it was suggested that the issue be kept in the agenda of future ISI and affiliate associations in future meetings (such as IAOS meeting in Chile in October 2010) until it is satisfactorily resolved.