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Judgmental Cuts in Consumer Price Indexation Are a Bad Idea

We believe that the Bureau of Labor Statistics (BLS) should be given all necessary resources, and all available expert help, to accelerate its ongoing program to improve its Consumer Price Index (CPI) and to explore variants of it appropriate for its operational uses, in particular indexation of Social Security benefits and income-tax brackets.

The Administration and the Congress appear to have pulled back from the recommendation of the Boskin Commission to appoint a new, broadly-based Commission of distinguished experts to anticipate the downward corrections in indexation to which BLS studies might or should eventually lead. Whatever their motives, we think that is the right decision. We do not

believe such a Commission would be able to sustain an ongoing consensus. And even if these authorities reached consensus, we doubt that the evidence available to support it would survive the inevitable close scrutiny of other experts and of the many interested parties. Thus the outcome of the process would be seen as essentially political.

We think there is no better alternative to working out in practice the appropriate concepts, methodologies and data-gathering processes. This only the BLS can do.

-Robert Solow, FAS Chairman Emeritus
-James Tobin, FAS Sponsor
-Kenneth Arrow, FAS Sponsor

(Reviewed and Approved by the FAS Council)

Price Indices, Cost of Living Indices and Quality of Life Indices

In this PIR, three FAS officials, two of them Nobel Laureates in economics, address the issues raised by the Boskin Commission's proposal to update the Consumer Price Index (CPI), an index which is widely agreed by economists to overstate the rate of inflation.

The Boskin Commission proposed to turn the CPI into a "true cost-of-living index" or COLI that would estimate the "minimum expenditure required to achieve the same level of well-being (also known as welfare, utility, standard-of-living) across two different sets of prices."

After a thorough review of the literature, and careful explanations of how this might be done, the Commission—in a final section of its report entitled: "Broader Considerations on the Quality of Life"—speculated on what would happen if one tried to

incorporate some further non-market factors such as crime, pollution and life expectancy. The Commission concluded that these other factors were unlikely to reverse their main conclusion that the CPI was overstated.

But by seeming to have raised the issue of moving from a Cost of Living Index to what one might call a Quality of Life Index (QOLI), the Boskin Commission alarmed some observers since moving from a COLI to a QOLI could, ironically, penalize social security recipients for increases in their life expectancy or even make a future improved CPI go negative.

In fact, the Commission freely admitted that these factors would be "difficult to integrate" into the "main cost of living framework" and only said that "progress on these fronts should provide useful supplementary

information to policy makers and the public."

Responding to some of these concerns, Federal Reserve Board Chairman Alan Greenspan, who inspired the Boskin Commission's creation, testified on January 30 that "changes in broad environmental and social conditions" ought not be included in the COLI but said nothing about non-marketable medical improvements.

CPI—COLI—QOLI

All this makes it abundantly clear that the Bureau of Labor Statistics will have to be as concerned to limit the expansion of a COLI into a QOLI as it is to expand the CPI into a COLI. But the obvious rule of thumb is to leave out improvements that cannot be bought and sold or, at least, easily priced. Thus improvements in heart operations would be included insofar as they required less blood, less days in the hospital and fewer repeat operations. But the improvement provided by a superior operation in quality of life lived and life expectancy, would be omitted. And this would be done not because these factors are unimportant to "welfare" or "happiness" or "well-being" but just because these are not the things one wants to measure for the purposes for which the CPI was designed, e.g. to calculate social security payments.

We hope the reader will enjoy Solow's survey of what economists are dealing with in this field, Tobin's appeal for a separate index for the elderly, and Paepke's critique of what would happen if a future BLS tried to go too far in incorporating the true improvements in the quality of life that mankind is experiencing.

The Boskin Commission did more than a difficult and painstaking job to help improve a vital statistic, the CPI. Its widely accepted conclusion that the CPI overstated inflation meant also that real growth (and hence productivity) were being understated. Thus the Boskin Commission sharpened public awareness that two key indicators of economic progress had flaws. This is a major contribution.

—Jeremy J. Stone

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The Nature of Consumer Price Indices

Robert M. Solow

What do we mean by an index of the "cost of living?" Suppose that you bought a certain collection of goods and services last year, and it cost you \$X. This year prices have changed. How much would you have to spend to achieve the same level of consumer satisfaction you achieved last year? If the answer is \$Y and Y is three percent higher than X, we could say that your cost of living has gone up by three percent.

Of course, you will not buy the same bundle of goods this year that you bought last year. Most likely you will reach the same level of satisfaction by buying more of things whose prices have fallen or risen very little, and less of things whose prices have risen a lot. If you bought the same bundle again this year, it would have cost *more* than \$Y. So pricing out last year's bundle at this year's prices would overstate the true increase in your cost of living.

The Consumer Price Index (CPI) is rather like this second calculation, only more so. It prices out a fixed bundle of goods that is intended to be representative, but changes only every ten years or so to reflect changed consumption habits.

It is also important that the change in your cost of living may not be the same as the change in mine, since we buy different things.

Economists Knew CPI Overstated Inflation

Economists have realized for a very long time that the CPI might be overstating the rate of inflation. In 1961 Richard Ruggles of Yale University used the Sears, Roebuck catalog to convince doubters and to raise a new issue, that of quality improvements. (The Sears mail order catalog was an enormous listing of a wide variety of non-food consumer goods of varying quality—"good," "better," "best"—and the prices at which they could be ordered.) According to the CPI, said Ruggles, non-food consumer prices rose 16.9 percent from 1954 to 1964; well, here is the Sears catalog for 1954 and the one for 1964, would you rather spend \$1000 on the 1954 catalog or \$1169 on the 1964 catalog? Since everyone preferred the 1964 catalog, everyone clearly thought that the CPI had overstated the "true" rate of inflation.

Ruggles observed that the CPI failed to credit for

improvements in the quality of what was nominally the same commodity. The "better" men's blue shirt in 1960 was better than the "better" men's blue shirt in 1950. Part of the increase in its price was appropriate compensation for superior materials, better laundering characteristics, etc.

The BLS has tried assiduously to improve the accuracy of its allowances for improved quality. The Boskin Commission believes that BLS is still well behind the curve. Unmeasured quality improvement accounts for 0.6 percent of the 1.1 percent per year by which the commission thinks the CPI overstates the rate of inflation.

The Commission has earned the right to its opinion. The members are expert economists. They have looked at what evidence there is, most of it, though not all, produced by the BLS. But the evidence is only partial, almost by definition. If there were nearly complete information about quality change, the BLS would have incorporated more of it into the CPI.

The fragmentary character of the evidence makes it inevitable that the Commission had to resort to some subjective judgment about what consumers "really" value. The commission's attention was naturally drawn to goods with very rapid quality improvement, like computers and cellular telephones, not to dish towels, tomatoes and bus rides. The only way to make credible progress on this important matter is to do the hard work, commodity by commodity and year after year, as the accompanying FAS Statement argues.

Separate Index for the Elderly?

Because the CPI is used for indexing Social Security benefits, certain poverty programs, and personal income tax brackets, a "technical" adjustment of an overstated rate of inflation would provide a certain amount of cover for a reduction in Social Security benefits and a rise in tax rates. The very same fact makes it important that any reestimation be done cleanly and carefully. Such a process would also provide an opportunity for a rethinking of certain deeper issues connected with the meaning of indexing.

One of these is discussed by James Tobin in this

issue. The true change in the cost of living will differ for people—or, more realistically, groups—with different spending patterns. One such group is the old, who receive indexed Social Security benefits and who are said to spend more on health care than others. Another such group is the poor, for whom cellular telephones and personal computers are not very important. The well-being of these groups is especially sensitive to indexing formulas, so a case could be made for calculating separate cost-of-living indexes for them.

This leads to a related, but more complex, question that has been explored by Professor Robert Pollack, an acknowledged expert on the theory of index numbers. Even if there were several group indexes, each would be constructed around the expenditure pattern of a “representative” member of the group. But we all know that each group contains people with widely different preferences and spending patterns. The sort of price index we are used to gives the spending pattern of a rich consumer more weight than that of a poor consumer. Is that appropriate?

What is Consumer Satisfaction?

Finally, there is an issue of different magnitude. The purpose of indexing Social Security is, clearly, to protect beneficiaries against inflation. But there is some ambiguity about the word “protect.” According to the definition of a cost-of-living index, accurate indexing would guarantee the beneficiary the same level of “consumer satisfaction” as prices change. The question is: what belongs in “consumer satisfaction” and what does not?

Suppose that the crime rate has fallen between last year and this; as a result, everyone, young and old, feels better off. If that feeling is part of consumer satisfaction, then you will need a smaller income this year to make you as well off as you were last year. Your cost of living is less this year than it would have been if the crime rate had remained unchanged.

Indexing Social Security benefits by such an index would insure that beneficiaries do not benefit from the lower crime rate; the advantage will be offset by lower consumption of marketable goods. That seems quite inappropriate; it is not what indexing was intended to achieve. Why should income be transferred from the old to the young because the has fallen?

Exactly the same story could be told about an improvement in air quality. No one would dream of indexing that away. Evidently there is a class of “environmental” amenities—social as well as physical—that are to be excluded from “consumer satisfaction.” Everyone would agree to that. The question is how far this



Robert M. Solow

class extends. Think about health care: someone discovers a new and better (and cheaper) way to eliminate pain in all sorts of circumstances. Should that be factored into the price of health care and indexed away from Social Security beneficiaries? Or is it an “environmental” amenity.

A slightly different example may be more revealing. Suppose the climate were to get colder. It would surely be more expensive to heat houses. Many of us would think that this should be regarded as an increase in the cost of living, and thus benefits should rise to allow pensioners to keep warm. One could think otherwise; but if most wages were indexed as well, or if unindexed wages rose in response to this development, probably pensioners should be protected too. Now imagine that the climate did not get colder, but got gloomier. Should the cost of restoring the old level of cheer—by better lighting, more home entertainment, etc.—be regarded as an increase in the cost of living? My guess is that most of us would think not. So there is a fine line to be drawn.

The obvious and right step is to give the Bureau of Labor Statistics the \$2 million in extra funds it has asked for (and the larger but still minor amounts needed later) so that quality measurement and other aspects of the Consumer Price Index can be improved quickly but carefully. This increment should not come at the expense of other BLS functions. You never know which crucial statistic will make headlines next.

□

Thoughts on Indexing the Elderly

James Tobin

The Boskin Commission (BC) finds that the Consumer Price Index (CPI) reported by the Bureau of Labor Statistics (BLS) overstates inflation 0.8 to 1.6 percent per year; the commission's best estimate of the bias is 1.1 percent. Economists have long suspected that the CPI and other price indexes overstate inflation. The bias moved from academia to the national stage when, urged by Alan Greenspan, Congressional leaders began to realize that its correction could contribute mightily to solution of intractable fiscal and political problems. Cutting indexation of benefits by one percentage point could cut nearly in half the actuarial shortfall of the social security system over the next seventy-five years. Reckoning also the revenue gains from slowing the indexing of personal income tax brackets, the correction would do wonders for the unified federal deficit, for example saving one-third of the deficit now projected for 2006.

The technicians of the BLS are well aware of the shortcomings of their index and work steadily to correct them. Congress should provide the agency the resources it needs. (Reckless and short-sighted budget economies threaten the whole body of federal statistics.)

Enthusiasts for cutting indexation—including Chairman Greenspan and Senators Lott and Moynihan—don't want to wait for BLS's improvements in its index. They propose another commission of wise disinterested experts who would determine each year how much to lop off the BLS's CPI change for the purposes of official indexation. If the Boskin Commission had this responsibility right now, presumably the answer would be 1.1 percentage points. BC invites "Congress and the President [to] decide whether they wish to continue the widespread over-indexing If the purpose ...is fully and accurately to insulate the groups receiving transfer payments and paying taxes, no more and no less, they should pass legislation adjusting indexing provisions accordingly." (Recommendation 16, p. 86). BC elaborates, "This could be done in the context of subtracting an amount partly or wholly reflecting the over-indexing from the current CPI-based indexing." On the amount to subtract, presumably advice could be sought from the "permanent (rotating) independent commission of experts"

BC asks Congress to establish.

Prior to 1973, Congress frequently raised social security benefits, using as a principal reason the need to keep up with inflation. Legislation in 1972 introduced CPI indexation from 1975 on, to discipline and depoliticize this process. Now to supersede the technical objectivity of the BLS with annual judgment calls is a grave step.

An Index Suitable for Adjusting Pensions?

The CPI is in the statistical and political spotlight mainly because of its use in indexing social security benefits. An important issue is whether it is suitable for that purpose, as it is presently designed and calculated and as it will be reformed by the BLS following the recommendations of the Boskin Commission. Surprisingly, this question is barely mentioned either in the BC report or in the ensuing public debate.

I argue for an index consciously designed for social security. I contend that this will become increasingly necessary if and as the CPI is changed in accordance with BC proposals.

When indexation of social security benefits was introduced, little thought was given to whether the CPI was appropriate for the purpose. The CPI is an all-purpose series, originally intended to give general statistical-historical information, not to govern settlements of public obligations. CPI-W, the index used for social security, seeks to track changes in the cost of the average market basket wage-earners buy. The other CPI, CPI-U, does the same thing for urban consumers. Neither is conceptually appropriate for indexing the benefits of the elderly.

The general assumption has been that it is close enough, and BC agrees: "Some have suggested that different groups in the population are likely to have faster or slower growth in their cost of living than recorded by changes in the CPI. We find no compelling evidence of this to date...." (p. 72). After citing two studies in support of their complacency, the commission notes a piece of evidence to the contrary. This is BLS's experimental CPI-E, measuring costs of the average market basket bought by persons aged 62

and older. From December 1990 to December 1995 CPI-E rose 0.35 percentage points a year faster than CPI-W. The difference is mainly due to health care, which, with a larger weight in CPI-E, recorded faster price increases than other CPI components. BC conjectures that as health care inflation subsides and its upward bias is corrected, CPI-E will converge to CPI-W. This remains to be seen, and in any event there is no guarantee that other deviations between elderly and population-wide CPI movements will not arise in future.

The misfit between the standard CPI and its task of indexing social security will actually be magnified by some of the reforms the Boskin Commission is proposing. Most of them are quite appropriate for a general-purpose index, but some are quite inappropriate for social security indexation. The principal problems arise in corrections to the increasing costs of medical care.

From CPI to Cost of Living Index

To understand this paradox, it helps to begin with BC's pervasive complaint, that the present CPI is not "a true cost of living index." (p. 1). Ultimately BC seeks to convert the CPI into a cost of living Index (COLI). Recommendation 1 (p. 78) reads: "The BLS should establish a cost of living index as its objective in measuring consumer prices. All our specific recommendations are aimed toward this goal."

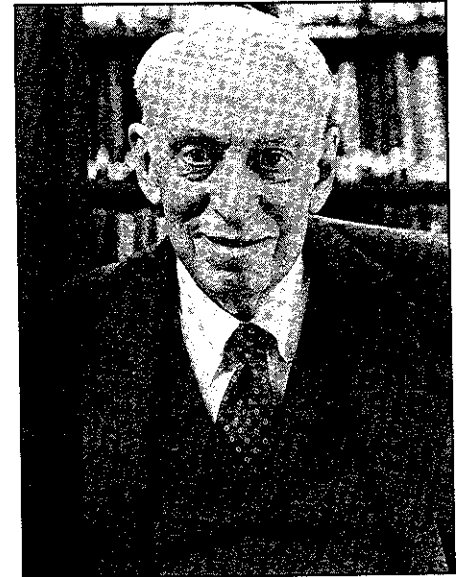
This complaint and this ambition permeate the report, from Executive Summary and Introduction to Recommendations and Conclusion. The CPI is simply "pricing a fixed (but representative) market basket ... over time." (p. i.), whereas "The change in the cost of living between two periods, for example 1975 and 1995, tells us how much income people would have needed in 1975, given the prices of goods and services available in that year, to be at least as well off as they are in 1995." (p. 1). Again, "A cost of living index is a comparison of the minimum expenditure required to achieve the same level of well-being (also known as welfare, utility, standard of living) across two different sets of prices." (p. 20). BC recommends two indexes, "one which is published monthly on a timely basis and is designed to maintain the spirit of the cost of living," and one "which is published and updated annually and revised historically" to introduce improvements in data

and methods. (pp.78-79). It is easy to imagine the second index as the vehicle for and rationale for judgmental corrections of the CPI in indexation, but BC does not suggest this.

Three phases in metamorphosis of CPI to COLI can be distinguished, though they blend in to each other. The first is for BLS to do better its present task of measuring changes over time in the prices of representative market baskets bought in cash transactions. Reforms include changing statistical formulas to eliminate bias; allowing more promptly for consumer substitutions among commodities and outlets; improved sampling and more accurate data collection. These reforms are not controversial. BC estimates that they would cut .51 percentage points from present CPI inflation.

The second category involves more adequate treatment of changes in quality of existing products and of gains in well-being attributable to introduction of new products, all still within the domain of cash market transactions. Examining the CPI, commodity by commodity, BC find .60 percentage points of upward bias.

The third category recognizes the contributions of a host of non-market changes in the physical and social environment to consumers' utility, welfare, well-being, or quality of life, and thus their relevance to estimates of cost of living. These changes are like improvements in product quality and introductions of new products but are not directly traceable to specific market transactions. BC regard these changes as strongly positive on balance. They look forward to research that will eventually put dollar estimates even on diffuse and in-kind quality-of-life events. No such estimates are in their 1.1 total bias now. However, it seems likely that having the third category in reserve makes BC more willing to resolve upwards uncertain-



James Tobin PHOTO BY MICHAEL MARSLAND

ties in the other categories.

Medical Care is the Most Important Problem

To return to the particular problems of indexing the elderly, most items in the 0.6 points of bias of the second type concern quality improvements and product innovations. Many of the examples may not be fully appreciated or exploited by older consumers, for example computers, internet, automobiles, cellular phones, fax, compact disks. But the most important problem is treatment of the quality of medical care.

Allowing for quality changes that arise either from modifications of existing products or from introduction of new products is the most difficult task facing makers of index numbers. It is particularly problematic in the realm of medical care. Certainly reductions in the inputs, chiefly of professionals and hospitals, required for a given procedure, should be reflected in the index, offsetting rises in the hourly costs of those inputs. By analogy, as new procedures replace old, it is natural to look for the economies in inputs required to achieve the same outcomes. But quite frequently the outcomes of new procedures were just not attainable before. The new product does better for the patient and costs more, but since the inferior old procedures are no longer available, the patient does not have the choice of pocketing in dollars any imputed value of the change, whether she or an insurer or Medicare is paying the bill. Very frequently the quality gain, of a single advance in medical technology or of the synergy of many advances, is to extend healthy life. The BC report argues that quality-of-life negatives (pollution, crime, suicide, divorce) are more than offset by identifiable though incompletely measured positives, "but most importantly by the major increase in longevity, which perhaps swamps everything else." (p. 77)

Should Longer Life Mean Lower Pensions?

This may well be true in reckoning the cost of living for younger people and for the nation as a whole. The extensions of life, indeed of healthy life, afforded by the miracles of modern medicine are remarkable gains in human welfare. But it does not make sense to diminish indexation of old people's pensions on this account, because these most signifi-

cant advances in social well-being actually accentuate the risks the social security system is designed to insure. This paradox is good reason to accompany reform of the standard CPI with creation of another index tailored to indexation of pensions.

Our health care system is determined to give every patient the most up-to-date care, however expensive. The elderly consumer of medical services has no feasible way to diminish his or her consumption of the bulk of those services in order to obtain extra cash for consumption of non-medical goods and services. That may be a tradeoff the society as a whole can make, but it is not available to one individual alone. When she leaves the hospital after the operation that prolongs her life, the octogenarian still has to buy groceries.

Social security was originally conceived as social insurance, universal and compulsory. The risk insured is that of out-living one's financial resources, of not dying before the money runs out. The monthly checks are meant to avert that fate, providing not just minimal subsistence but reasonable replacement of pre-retirement wages. In the 1930s when social security was enacted, the risk of outliving one's resources was still fairly new. Workers who voluntarily or involuntarily retired usually became charges on their own children. Social security was both adapting to and creating new demographic and social realities.

In practice, social security's income replacement objective is implemented by computing the participant's average history of social-security-taxable earnings scaled up by a national wage index to the year he or she is age 62. This average is converted into annuity entitlements by a formula that is progressive in the sense that it treats participants disproportionately more generously the lower their wage histories. These dollar amounts are in turn indexed by the CPI relative to its level in the year the participant was 62. Broadly speaking, then, the price indexation is intended to stabilize the consumption value of annual benefits, once the wage-replacement value of the benefits has been set at the same ratios as for previous cohorts (an average of about 37 percent.)

Should Non-Market Factors be Included?

In general, I believe, it is not appropriate to try to adjust cash benefits for non-market additions to or subtractions from "quality of life," whether from

medical care in kind or from natural and social changes in environment. The Boskin Commission is over-ambitious for itself and BLS if it expects to estimate a "cost of living" index that will keep utility or well-being constant. Better to concentrate, especially in constructing indexes with dollars-and-cents implications, on measuring as accurately as possible changes in the costs retired people face in buying the consumption goods and services they acquire in markets for cash. BLS already tries to allow for changes in quality of specific products or their replacements, and they can do better. But it would be arrogant for bureaucrats or commissions of wise men and women to judge by how much improvements in

general conditions of life offset increases in recorded market prices.

Let us not forget that indexation need not, should not, bear the whole burden of keeping benefits in line with needs. Congress can change the basic amounts of the benefits, and has often done so. Until now Congress has chosen not to diminish cash social security benefits because of Medicare and the increased effectiveness of medical treatments. Congress can change that policy, but it should not rely on the pretense that there is objective technical justification for eroding old folks' pensions annually by precise amounts. □

Disciplinary Overstretch

C. Owen Paepke

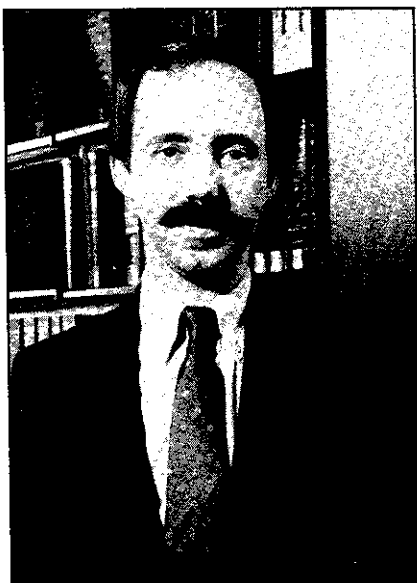
The Advisory Commission on the Consumer Price Index has proposed some minor and unexceptionable changes, coupled with one that would alter the underlying concept of the CPI. The ambitious proposal would have the BLS comprehensively correct the Index for improved product quality and new products, primarily due to technological advances. This proposal belies the economic profession's carefully cultivated image of insisting on hard data, objectivity, and reproducibility and soars into the less restricted realm of social commentary. This freedom from disciplinary restraint carries a price.

The Commission advocates the product quality adjustment to achieve what it calls a true cost of living index, that is, "a comparison in two time periods of the minimum expenditure required to achieve the same level of well-being." Such a comparison must be hypothetical, as the Commission's

own examples illustrate. Cardiac surgery has improved, so the Commission posits that such surgery has effectively become cheaper. But hospitals could not practice the superior techniques in 1970, nor do they now offer out of date techniques at a discount. The personal computers of 1997 were unavailable in 1990, and purchasers today cannot choose an obsolescent machine. Some buyers would willingly have paid a premium in the past for the added performance. Others buy much more power than they use because there is no cheaper system that will run the standard software. After society assimilates a meaningful advance in technology, the preexisting alternative rarely remains available and practical for long.

Accounting for Technology is Difficult

Economists have always insisted on market transactions as the touchstone of value, but such evidence is rarely available in comparing different products across long time spans. Without such transactions, value estimates are unavoidably subjective. (The displacement of old technology objectively establishes that its replacement is economically superior, but does not quantify that superiority.) The Commission implicitly admits this problem by declaring every estimate to be "conservative" or "understated." A neutral estimate would naturally be higher, an aggressive estimate higher still. Thus, in practice, the BLS could presumably justify a higher or lower figure each month based on the same market



C. Owen Paepke

data.

Such difficulties become glaring as the perspective lengthens. Contrary to the impression conveyed by the Commission, the contribution of technology to daily life has clearly declined during the last few decades. Compare, for example, improved cardiac surgery (the Commission's centerfold in the medical arena) to the invention of aseptic surgical techniques, vaccinations against the major diseases, or antibiotics. Improved housing, nutrition, and health care added more than 20 years to American life expectancies between 1900 and 1970, and a few years since then. The personal computer is a valuable tool, but trivial in its impact compared to the telephone, radio, or television. How would economists incorporate the mobility afforded by the train, the automobile, or the airplane compared to the horse in a price index? Refrigeration, the electric motor and internal combustion engine, synthetic materials, chemical fertilizers and pesticides, and a dozen other advances changed daily life in ways that defy quantification. Some changes are not monetarily commensurable. To compare life across eras is an exercise of history and imagination, not economics.

Material Well-being Improved Enormously

Indeed, applying the Commission's methodology retroactively, technological advance clearly dwarfs the effect of rising prices. Mancur Olson has made this point with a simple thought experiment: would a consumer prefer a \$25,000 income at present, or the same income in 1932 (about \$250,000 in 1997 dollars)?

[O]ne could readily afford a Rolls-Royce, the best seats in the theater, and the care of the best physicians in the country. But the 1932 Rolls-Royce . . . does not embody some of the desirable technologies available today in the humblest Ford. Nor would the imposing dollars of 1932 buy a TV set or a [VCR]. And if one gets an infection, the best physicians in 1932 would not be able to prescribe an antibiotic.

Material well-being has clearly improved. This improvement reflects differences in kind, not in quantity. Any economic index would be severely strained to quantify such changes. Moreover, in pragmatic terms, it seems doubtful that the public would accept deflationary adjustments (in entitlements, salaries, and tax brackets) while the cost

of living in the real world, as opposed to the Commission's hypothetical construct, continues to rise.

Where Should it End?

Once begun, it is unclear where this kind of exercise should end. The Commission acknowledges that income and spending statistics should be gathered and stated on substantially the same basis. Thus, if the BLS should incorporate qualitative changes in the CPI, why not in calculating incomes? Americans report sharp declines in their leisure time since the 1970s, and recent OECD studies confirm a two hour per week increase in working time over the same interval. The value of leisure admittedly defies precise quantification, but the Commission seems undaunted by such quibbles, so long as it can characterize the estimate as "conservative." Using even half the wage rate, this adjustment would overwhelm the change in the CPI proposed by the Commission, producing a significant decline in living standards (and tax revenues). But most people have not gotten poorer, just busier. By the same token, new products and product improvements have not made life cheaper, just better. Economic statistics cannot capture quality of life.

The future would pose even more acute challenges for the Commission's approach. The species itself will increasingly become the subject of technological advances. Researchers may soon extend methods for slowing the aging process and lengthening the life span by decades to people. What hypothetical price should the BLS assign to 20 more years of middle age? A few parents have already practiced rudimentary genetic selection of their children. Such pre-implantation selection will expand, and may even become the norm, as genetic research reveals the molecular sources of more traits. What should be the price premium for children with 20 added IQ points or 3 inches in height?

The prospect of rescuing insolvent entitlements and balancing budgets without voting for any cuts is tempting. But recalculation of economic statistics substitutes for policy-making only in an Orwellian world, where the facts become whatever the government finds convenient. The CPI serves its modest function if it fairly reflects what people pay for what they buy. More than that should be left to historians.

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Pointless Political Hagglng While A Nation Starves

Jeremy J. Stone

In an effort to make some contribution toward alleviating the ongoing, ever more desperate, famine in North Korea, FAS President Stone spent a week talking to experts. The resultant op-ed, which was, among other things, widely circulated on the Nautilus Institute's Northeast Asia Peace and Security Network, argued that the South Korean strategy of starving out the North Koreans would not work because it ignored the role of China. But the strategy is, nevertheless, being diabolically pursued. In order to make it difficult politically for the Japanese to provide North Korea with part of its 3,000,000 tons of aging rice, South Korean intelligence leaked poignant evidence of North Korean kidnaping of Japanese women to serve as language tutors for Korean spies.

As North Korea declines economically, it is far more likely to collapse into the arms of its Northern neighbor, China, than into the arms of its brethren in South Korea. But South Korea, assuming that a collapse would mean Korean unification, is using its influence to discourage large scale food aid from Japan and the United States. This geopolitical misunderstanding is causing needless suffering and could cause many deaths.

The Democratic People's Republic of Korea (DPRK) will likely collapse to the North because Chinaunlike South Korea--is willing and, indeed, eager, to keep North Korea in business. In 1950, China spent one million Chinese lives, and even risked its newly minted revolution, to support North Korea. China likes weak, and preferably socialist, states on its periphery. And a disaster means many refugees crossing the Yalu river into China. So leaders in Pyongyang know they can always get a relatively friendly reception from big brother in Beijing.

North Will Turn to China

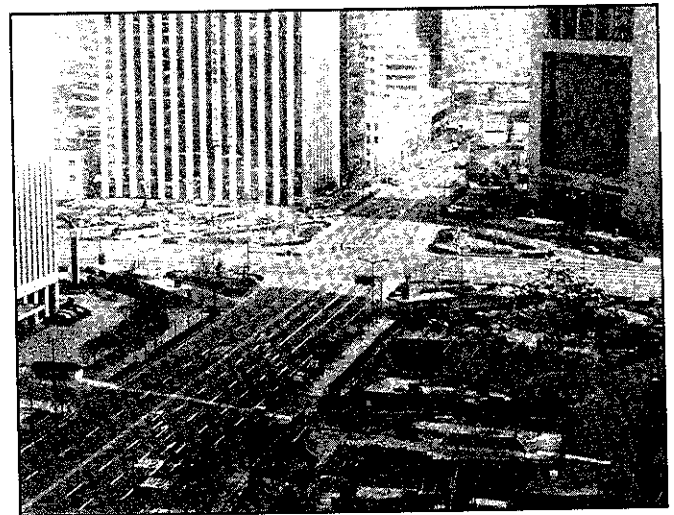
By contrast, calling in the South Koreans would be politically suicidal and unthinkable for the North's leader Kim Jong Il or for the North Korean military. And unless the South is called in, the tightly controlled DPRK army, which has better rations than the population at large, will man the Demilitarized Zone between North and South Korea right up to the end

with weapons in reserve that can reach the South's capitol, Seoul. This will deter the South Korean Army from entering, even if the Chinese army has crossed the Yalu to distribute food.

Under these circumstances, Seoul should put aside its fully justified hate for the North's government, which has invaded it, and threatened it, and should try to help, rather than hinder, food aid to the North and stop insisting on prior political concessions.

Meanwhile, the Chinese, who are already providing 500,000 tons of grain annually, should be asking for market reforms, and liberalization, in return for further food aid. If the Chinese delay too long in working out the terms of constructive change in return for further help, the North will become an albatross around China's neck. The North's ever more exhausted population, led by the world's most ideological—and hence highly incompetent—Government will, in time, become unable to function effectively to help itself.

These and other necessary negotiations are hampered by the three-year mourning period of Kim Jong Il for the death of his father, Kim Il Sung, a period expected to end in July. During this period, Kim Jong Il has not met with foreigners. But since he has asked the population to "put aside its grief" during this emergency, perhaps the Chinese Government, and others, could ask him to put aside his own grief long enough to receive high-level emissaries.



Empty streets in Seoul, South Korea during air raid drill against threat of North Korean attack

And the emergency is coming up fast. Food supplies are thought to be running out this Spring, some reports say next month. The next real harvest is in September-October. The World Food Program is struggling to get subscriptions for a mere 100,000 tons of food when all agree a minimum of 1,000,000 tons is needed to fill the gap. There is concern among experts as to whether the exhausted population will emerge from the winter with enough energy to do the very heavy work required in the Spring planting.

A UN Development Program leader, Arthur Holcombe, reported in Beijing, last week, that malnutrition is widespread in flood devastated areas, that infants are not growing properly and that night-blindness, rickets and scurvy are common, especially among children. Experts fear a generation of North Korean children permanently weakened not just physically but mentally by malnutrition. There are now rumors of the North applying a "tourniquet" strategy of triage in which seriously deficit regions are simply being allowed to die without any food distributions.

Since the North will not provide pictures, or permit surveys, even to the food-aid groups who need them to sound the alarm, these North Koreans are starving

as voicelessly and helplessly as Jews died in Hitler's concentration camps.

And not just starvation is at issue but the possibility of war. Fifty years ago, the Japanese attacked Pearl Harbor despite studies in their files showing they could never win a war against the United States. In a similar display of oriental determination and fatalism, encouraged by intense indoctrination, one cannot preclude an irrational last-ditch attack by the North's army on the South and that would, of course, involve our forces.

The time has come for an intense series of bilateral consultations, between the U.S., South Korea, Japan and China to discuss, explicitly, last-ditch contingencies and trends. One might well wish that Pyongyang's Orwellian regime, which has caused so much repressed suffering to its gagged population, would disappear. But today China is unlikely to permit this to happen even if the North were willing to go quietly into the night, which it likely will not. And the costs and risks are such that regional planning is in order for the time, clearly coming in years if not months, when North Korea goes into some kind of collapse or receivership. □

Opening Up the Congressional Research Service

Steven Aftergood

By gaining entry to a closed electronic archive of Congressional Research Service (CRS) reports and then publishing more than a hundred reports on our web site, FAS has cast a spotlight on the increasingly futile efforts of this congressional agency to limit public access to its unclassified taxpayer-supported research.

CRS, a division of the Library of Congress, produces well-regarded, non-partisan reports on legislative and policy issues for Members of Congress.

In the last year or so, CRS has placed all of its issue briefs and numerous reports on its world wide web site, where they are "readily accessible electronically to Members and staff 24 hours a day." But in a curious anachronism, the CRS web site has been designed so as to prevent public access to its unclassified reports. Almost.

Recently, FAS Cyberstrategy Project director John Pike discovered an "open," unprotected address at the

CRS website which allowed direct access to the collection of CRS reports. Over a hundred of these reports were downloaded and placed on the FAS website <<http://www.fas.org/spp/civil/crs/>>.

This discovery led to a flurry of news stories that emphasized the peculiar contradictions in the CRS position.

For one thing, all of the reports on the CRS website are publicly releaseable documents. Any of them can be obtained upon request to a Member of Congress, although this can take several days or weeks. By blocking electronic access, CRS is in effect wasting the taxpayer money that is used to pay the costs involved in printing, handling, and mailing the hardcopy version of the reports.

In the ultimate absurdity, a private publisher called Penny Hill Press has taken advantage of the CRS secrecy policy to make money by methodically collecting all CRS reports and then selling them to the

public. For a considerable fee, "We offer same-day shipment of all publications of the Congressional Research Service," the Press boasts. Given that CRS reports have already been paid for by the taxpayer, this adds insult to injury.

Absurd or not, CRS continues to resist any changes in its disclosure policies. "CRS is prohibited by law and congressional guidelines from directly making available most of its written products to non-congressional requesters," CRS Director Daniel P. Mulhollan wrote in a recent letter to FAS.

Even though individual CRS reports can be requested from congressional offices by members of the public who know enough to ask for them, "there are critical differences between public access through a congressional office and direct distribution of products by CRS," Mr. Mulhollan wrote. "The latter process would change the fundamental mission of CRS," he asserted, "and would divert limited CRS resources from sole and direct service to the Congress."

But the FAS argument is that CRS could optimize its resources and significantly reduce costs by allowing direct public access to the electronic database of CRS reports.

CRS reports and issue briefs are a unique resource that can help citizens comprehend the intellectual underpinnings of congressional decision-making. They encompass almost every topic of current policy importance in a relatively concise form. Unlike most of its peer competitors, CRS generally abstains from drawing specific conclusions about policy issues that are in dispute. Instead, its analyses carefully marshal the arguments pro and con, and invite the reader to decide for himself.

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FAS President Jeremy J. Stone noted that "while much CRS material is justifiably considered proprietary, e.g. when it is done for a specific Congressman or group of Congressmen, material prepared for Congress as a whole, and available to all its staff, might just as well be considered public if CRS rules permit, as they do, that individual Congressmen provide this information to constituents."

"Under these circumstances, Congress should change the laws that govern CRS to reflect this reality and to bring the treatment of CRS reports into some consistency with the way the Freedom of Information Act treats material that has no reason to be kept from the public. Further, there is a special public interest in being able to monitor reports that play such a salient role in shaping congressional opinion because it would enhance informed public comment before relevant legislation is passed. Since CRS reports have been quasi-public for a long time, and found most reliable, we know they can stand up under this scrutiny in most cases and see no problem for CRS arising from this."

Entrenched bureaucracies are notoriously slow to change their behavior. But the climate for a change in CRS policy seems relatively favorable. "I am committed to making all House documents available over the Internet as rapidly as possible," said Rep. Vernon J. Ehlers (R-MI) of the House Oversight Committee. He added that "I believe it absolutely essential that every document available in hard copy also be made available on the Internet at the same time or earlier than the hard copy is available. The Congress owes the public at least that much and preferably more."

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