NYT Violates Standards of Basic Economics and Journalistic Procedures in Reporting on Venezuela Inflation

By Mark Weisbrot

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On Saturday, March 1 the *New York Times* ran a graphic accompanying its article on Venezuela that showed an "implied inflation rate" of more than 300 percent.

This is a statistic that was manufactured by the Cato Institute. It is not a meaningful measure of inflation, and there are few economists who would accept it as such. I will explain below why the *Times* has violated both the standards of basic economics and also standard journalistic procedures with this decision, which as of today (March 6), the editors have refused to correct, despite being presented with explanations of why it is wrong. But first, a note on the significance of this kind of misreporting.

If this bogus statistic is picked up by Venezuela's opposition media and becomes another "fact," it could have a significant influence on the actual dynamic of inflation in Venezuela. To the extent that this statistic is believed, many Venezuelans would not want to hold domestic currency and would move their money into dollars or other assets, thus fueling both black market currency depreciation and inflation.

(There is a similar problem in Argentina, where the media, which is mostly against the government, often exaggerates the problems of the economy in ways that would make more people flee from the domestic currency there.)

Regarding Venezuela, this is the second time in the past two weeks that the *Times* has misreported a key fact that has very important political consequences. On February 20, the *Times* led its article with the sentence "The only television station that regularly broadcast voices critical of the government …" As it turns out, all of the private TV stations "regularly broadcast voices critical of the government." The *Times* ran a correction. The importance of this kind of mistake can be seen in the statements by actors who have no familiarity with Venezuela, like Kevin Spacey and Jared Leto, who made statements that reached tens of millions of people, about "freedom of expression" in Venezuela that are completely divorced from reality. This is very ugly because it lends support to the rightist movement there that is currently seeking to overthrow the democratically-elected government, and most importantly to their fundamental strategy, which is to portray the government as a dictatorship that is illegitimate. This in turn helps to justify violent demonstrations in Venezuela.

Now, for the more boring details of the *Times'* error on inflation. Inflation is currently running at 56 percent, which is high but not hyperinflation. The *Times'* error, taken from Cato, is actually quite simple. They are using a formula to calculate what inflation would be if people had to pay for all of their goods and services in dollars purchased on the black market. But as anyone in Venezuela can tell you, this is not the case. For most of the purchases that make up the basket of goods measured by the Consumer

Price Index, Venezuelans use domestic currency. The Cato measure (methodology here) is measuring the change in the black market dollar exchange rate, which very simply, is not the same thing as inflation, even if the two variables may be related. The uselessness of this measure can be seen on the graph itself, where the "implied inflation rate" turns negative in 2008-09, at a time when actual inflation is running at 25-31 percent.

The *Times'* error violates standard economic reporting because it is standard to use official statistics, which come from government or international agencies such as the IMF (which of course has not challenged or even criticized Venezuela's consumer price index). The only exceptions are when the official statistics are not considered by economists to be true, and there are reliable private estimates. An interested party should not be able to simply make up a new statistic for inflation, unemployment, poverty, etc. and expect that a reputable media outlet will report it along with the official statistic that is used by economists and international agencies.

In fairness to the reporter, I am told that he was not responsible for the graph, and the article was otherwise fair and balanced, and an interesting piece.