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American economics says ZimStat is run by a clown

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UNITED States professor of applied economics at Johns Hopkins University in Baltimore, Maryland, and senior fellow at the Cato Institute, Steve Hanke, has fiercely hit back at the Zimbabwe Statistical Agency (ZimStat) director-general Taguma Mahonde after he had challenged the Purchasing Power Parity (PPP) method which the American expert uses to calculate price increase rates in various countries, including Zimbabwe.

Said Hanke: "FLASH: A circus, amply supplied with clowns, has arrived in Harare, Zimbabwe. The lead clown is none other than the Director-General of Zimstat Taguma Mahonde. He is holding a banner: ‘Zim's inflation = 256.9%/yr.' SPOILER ALERT: Zim's inflation = 479%/y."

Stung by Hanke's PPP theory to calculate the average rate of monthly and annual price increases – which mostly puts inflation much higher than official figures – the Zimbabwean government, through Mahonde, came out guns blazing against the American currency and inflation guru on the issue.

Mahonde says the PPP approach is wrong. In any case, he adds, Hanke only became critical of the Zimbabwean government methods after 2018 following his alleged failure to land a multi-million-dollar consultancy that he was purportedly eyeing.

PPP is the idea that goods in one country will cost the same in another country, once their exchange rate is applied. According to this theory, two currencies are at par when a market basket of goods is valued the same in both countries.

This is what Hanke uses to calculate inflation, including in Zimbabwe. He previously wrote about Zimbabwe's hyperinflation in 2008.

Meanwhile, government's official measures are calculated by determining the changes in prices of items in local currency in the official basket. These prices are gathered by sampling prices for items in the basket. Then, the items in the official basket are assigned weights, and a price index is produced.

In contrast, PPP relies on exchange- rate data and price- level differentials between two countries. It avoids measurement errors and weighting problems associated with official price indices, says Hanke, who has taught economics and held senior government positions as an adviser on currency issues around the world.

Mahonde differs, saying Hanke's method is "questionable".

"Hanke uses exchange rates and stock market indices to calculate inflation rates. He bases his argument on the Purchasing Power Parity theorem," Mahonde says.

"In Zimbabwe he used the Old Mutual Implied Rate for a long time. This is besides the fact that stock market prices are driven by:

a) Fundamental factors and these have much to do with performance of firms;

b) Technical factors that are related to stock price history in the market;

c) Market sentiment – this is the most vexing and subjective category, where subjectivity

comes into play; and

d) Speculative motive.

"However, the goods and services market is not driven by the same factors as the stock market. Accounting for inflation involves tracking prices of commodities in the goods and services market. This is not the same as tracking price developments in the exchange and stock markets, thus Hanke's model and methods become questionable."

But Hanke, a leading world expert on currency boards, measuring and stopping hyperinflation, privatisation, currency and commodity trading, insists the PPP theory is a tried and tested – better – method of measuring inflation above 25% annually as is the case with Zimbabwe now.

Says Mahonde: "Of interest is that, in as far back as the 18th century the French in their wisdom could differentiate the stock, goods and foreign exchange markets. They respected the differences in these markets as well as the different factors that drive these three distinct markets.

"What is true is that the markets are not independent of each other as developments in one market can affect another. However, they were, are not and will never be substitutes."

The principle used locally and internationally when collecting prices data is that enumerators collect prices that consumers would pay for goods or services, he adds.

"In cases where prices are quoted in foreign currency, enumerators are required to ask the shop personnel how much the commodity costs in local currency. Conversion is done by the shop-owner so that the enumerator captures the price that consumers would pay," Mahonde says.

"This principle also puts to rest the argument put forward by some, that ZimStat captures prices at official exchange rates only. Notable is that enumerators collect going prices in outlets, be they supermarkets, liquor shops, saloons, open markets and so on.

"In short, ZimStat does not go about looking for exchange rates or cost build-ups as they are already factored in the final price."

Mahonde says Hanke initially supported the government's approach, hoping to get a consultancy contract.

"The coming in of a new Government in Zimbabwe in 2017, saw Professor Steve Hanke resorting to use of positive language. He would proffer his proposals on monetary sector reforms in a positive way," he says.

"It would appear Hanke was looking for a few million-dollars-contracts in exchange of consultancy work to stabilise the monetary side of the Zimbabwe economy. His tweets were telling in 2017, as he was not aggressive but showed interest.

"The professor was doing a combination of public relations and scouting for a consultancy contract. He pursued this mirage for over 12 months.

"In the process, he made sure he reminded everyone of his previous engagements with other governments like Bulgaria. Interestingly, his prescription remained the same:

a) Dollarise; and

b) Establish a currency board. "

Mahonde adds: "By the last quarter of 2018 it then dawned on the professor that no contract was coming his way. This is when the animal in the professor took charge. Up to now he talks negatively of authorities in Zimbabwe with most being labelled incompetent. He pushed the agenda that wrong calculation of consumer price indices or suppression of inflation rates is synonymous with Zimstat.

"A person outside any country cannot go through a systematic process of price data collection in retail outlets in a determined sample and apply the requisite processing techniques to come up with an inflation index.

"Authorities in Türkiye have reminded the professor that there is no way he can calculate inflation in Türkiye by use of exchange rate and stock market indices.

"Interestingly, it is not ZimStat alone that is accused of all sorts of ills. The professor has a list of over 30 countries that are all alleged to be feeding stakeholders with wrong statistics."

Hanke insists official statistics are wrong.