

The Boskin Commission Report After a Decade: Introduction to the Symposium and Implications for Productivity

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ACCURATE PRICE INDEXES ARE essential for reliable productivity measurement. Most measures of output, the numerator of the productivity ratio, are produced through deflation of an expenditure total by a price index — direct measurement of output is rare. Though the labour input is formed from measures of hours (so it is a quantity index, where different labour types are typically weighted by compensation), the other input measures used in measuring multifactor productivity (intermediate inputs and capital services) are, like the output measure, estimated through deflation.

With the deflation procedure, any error in the price index translates into an equal error of opposite sign in the associated deflated quantity measure. Thus, if the output price index rises, say, one percentage point per year too rapidly, the growth in output is understated by the same amount. The output growth error would in turn translate into a downward error in the estimate of productivity growth, provided the inputs are measured accurately (but they might of course have their own biases).

In late 1995, the Commission to Study the Accuracy of the Consumer Price Index, known

as the Boskin Commission after the Chair Michael Boskin of Stanford University,¹ issued its “interim report.” This was followed at the end of 1996 by a “final report.” The Commission estimated that the U.S. CPI was upward biased by 1.1 percentage points per year. This is a huge error when the *measured* annual rate of consumer inflation since 1991 has only averaged 2.6 per cent per year.

Although the main focus of the Commission’s report was possible over-statement in the escalation of income payments to U.S. Social Security recipients, CPI components are used for deflation of components of the national accounts, not only in the United States, but in every country. The Commission’s estimate implied that output growth was understated in the United States, though the precise amount is difficult to determine, since national accounts deflation does not use the overall CPI, but rather its components, and other price indexes are also used (Producer Price Index components, for example). Nevertheless, the Commission’s estimate, if accurate, had strong implications for productivity measurement, whether or not the price indexes used for deflating capital and other inputs had their own biases.

1 The other members of the Commission were Ellen Dulberger from IBM, Robert J. Gordon from Northwestern University, and Zvi Griliches and Dale Jorgenson from Harvard University.

The Commission's report had a tremendous impact, not only in the United States, but also internationally because economists in other countries rightly saw that CPI measurement error was not specific to one country. A decade has passed since the Commission's interim report set off the international discussions, repercussions, and controversy, time enough to form an assessment of the report's analysis, its findings and its influence. The five articles in this symposium, based on papers originally presented at a session entitled "The Boskin Commission After a Decade: Is the CPI Still Biased?"

held at the annual meeting of the American Economic Association in Boston, January 6-8, 2006, provide such an assessment.

The American Economic Association session where the papers were presented was well attended, which is testimony that the issues the Commission raised are still live ones a decade later. The papers from the session are being published in this issue of the *International Productivity Monitor* because the accuracy of price indexes is of vital concern to those who produce and to those who use productivity measures.