

# CAYMAN FINANCIAL REVIEW

THIRD QUARTER 2017

ISSUE NO. 48

## FAKE ECONOMIC NEWS

*By Richard W. Rahn*  
*July 18, 2017*



**Fake news is the name given primarily to political news that is not true. Unfortunately, much economic news is also not true, because the data is so poor or the sources, most often government bureaucrats, have a vested interest in misreporting. In this issue of the Cayman Financial Review, Lawrence Hunter describes the problem of what are often called free**

**trade agreements are nothing of the sort. In another article, Professor Urska Velikonja describes how the Securities and Exchange Commission and other government agencies misrepresent their own performance.**

**R**ecently, I was in Kiev, Ukraine, and observed many new, attractive high-rise apartment and office buildings and considerable on-going construction. If you read the official statistics about the Ukrainian economy, you would believe the place is economically stagnant, or worse. The country has a low-level war with Russia and by all accounts has massive corruption; yet, real economic progress

is taking place. From the end of the Cold War, I have visited Ukraine every few years in conjunction with some economic program or conference. As noted, the official numbers about the Ukrainian economy from various international and U.S. government agencies show almost no rise in the standard of living over the last thirty years, but those of us who have observed what is actually happening on the ground know that the numbers have been wrong. I asked some of the Ukrainian economists I was meeting with for their explanation of the disparity. They all agreed that more than 50 percent of the Ukrainian economy is part of the “shadow economy,” meaning that the numbers were not being reported, nor taxes being paid on much of the activity.

During the Cold War, the CIA and other government agencies reported a much higher standard of living than was true for the Soviet Union and Eastern Europe. As chief economist of the U.S. Chamber of Commerce in the 1980s, I was a consumer of the data for policy reasons, but had been given a “heads up” by colleagues at the National Security Council that they believed the official numbers were wide of the mark. The folks at the CIA and elsewhere had a vested interest in exaggerating the economic threat from the communist countries. They also tended to rely too much on the “official” numbers as reported by these countries. For instance, the Bulgarian government would report that bread cost x cents per loaf, but in fact few loaves of bread were available at that price and so most consumers had to rely on the black markets to obtain bread – at a much higher price – and this real-world data was often not adequately factored into the CIA estimates. The quality of most goods and services was also much lower than in the capitalist countries, and these quality differences were also not adequately made part of the official economic estimates.

Government agencies, whether domestic or international have a vested interest in overstating the ability to repay the debt of those to whom they have extended loans. Like banks, they have an obligation to report potential bad debts but often fail to do so because of the political embarrassment that it might cause. Note: The Greek government keeps obtaining debt forbearance from its international creditors on the basis of promises to cut spending and raise more tax revenue, which never fully occurs for reasons any objective observer well understands.

In the article “Behind the SEC’s Enforcement Statistics,” Professor Velikonja of the Georgetown University Law Center, exposes how the SEC selectively uses statistics to make its performance seem much better than it is. “The most widely-used performance indicators that the SEC uses are the number of enforcement actions filed and the amount of monetary penalties imposed. Neither

measures what it is supposed to measure – the increase in investor protection and/or capital market efficiency – both are unreliable: they are used inconsistently from year to year and can be manipulated.” Many government agencies use flawed statistics to make their performance look better than it is in order to obtain larger budgets and more power.

Lawrence Hunter had several senior economic policy positions in both the executive and legislative branches of the U.S. government, and well understands the difference between what gets labeled as free-trade agreements and the reality. Free trade has been economic orthodoxy since the late 18th and early 19th centuries, when its benefits were best described by Adam Smith and David Ricardo. As Hunter notes: “The case for free trade broadly defined holds that people should be free to trade freely among themselves for goods and services without government intervention and restrictions, both among their own countrymen and with people of foreign nations. Under this arrangement, people will tend to produce and export those goods in which they excel and to import those goods in which they and their fellow countrymen do not excel.” Before World War I, free trade flourished, but Hunter argues it has been in retreat ever since. “The rebirth of free trade was extinguished with the introduction of government-managed trade, the history of which is charted by the litany of alphabet efforts of politicians and bureaucrats to substitute their own rules for the working of free markets – NAFTA, CAFTA, WTO, and the TPP, to name a few. Bizarrely, all of these acts of destruction were committed in the name of open markets and free trade.”

The irony is that President Trump had a point in his criticism of the existing “free trade” agreements, without seeming to understand that the solution was real free trade.

Fake economic news is largely a product of self-interested government bureaucrats and others spinning information to make their agencies or themselves look as if their only objective is the “public interest.” Fake news is also a product of the real problems associated with obtaining accurate data because of incompetence or the plain difficulty of obtaining reliable numbers. Trade numbers, for example, contain massive errors due both to definitional problems and inconsistent data collection procedures. Many economic numbers are nothing more than approximations or even guesses, so users beware.

<https://www.caymanfinancialreview.com/2017/07/18/fake-economic-news/>