

# Economist says inflation measurement inaccurate

By TOM VISOKY  
Of the Emerald

Measuring inflation is a tricky business because — like all forms of measurement — the final figures depend on whose yardstick is used.

According to Jack Triplett of the U.S. Bureau of Labor Statistics, economists have not yet decided on a suitable yardstick.

Triplett, an expert in measurement economics and a former University professor, addressed the question "How should we measure inflation?" at a Wednesday campus seminar.

Currently, inflation is measured by calculating changes in either the Consumer Price Index compiled by the BLS or the Personal Consumption Expenditure index compiled by the Department of Commerce.

Triplett said BLS measures inflation by gathering reams of information on the prices of a wide range of consumer goods from steaks and gasoline to housing. These prices are assigned a specific "weight" and then are plugged into a formula to compute the CPI.

Triplett noted that the press, in its efforts to calculate the current inflation rate, often incorrectly compares the CPI and the PCE. These indexes use the same formula, but they assign different weights to the various parts of the index, he said.

In addition, Triplett said, the press often reports a component of the PCE index known as the "implicit price deflator" as a measure of inflation.

"But that deflator really has no meaning," he said.

The implicit deflator in the PCE index only tells the difference between current prices and those of the 1972 base year, he said.

To illustrate the differences between the various indexes Triplett pointed to the effects housing costs had on the final figures.

In the PCE index and one CPI index housing costs are calculated on a "rental equivalency" basis, he said. That is, the costs of owning a single-family house are based on the average current rental value of all single-family houses.

In the official CPI index, Triplett said, housing costs are calculated on a "user cost" basis that includes such things as maintenance and depreciation costs, as well as monthly mortgage payments.

"These two alternative ways of treating housing make quite a bit of difference in the indexing," he said.

Triplett said that during most

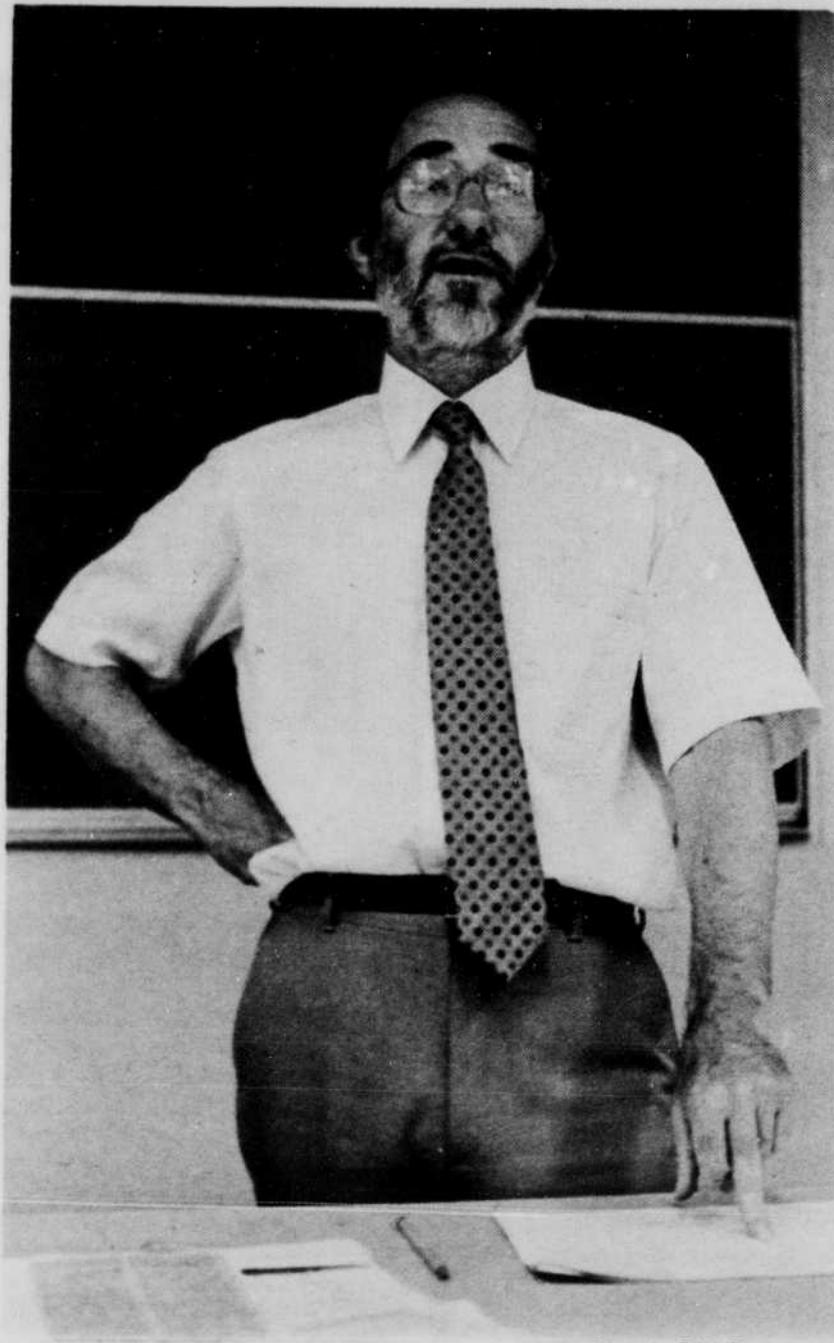


Photo by Erich Boekelheide

Jack Triplett, an economist with the U.S. Bureau of Labor Statistics, said at a Wednesday seminar that current formulas used to measure inflation are inaccurate.

of the 1970's the differences in computing housing costs amounted to a variation of less than 1 percent in the index figures.

However, in recent years the "housing effect" has led to a variation of more than 2 percent.

"It has distorted the indexes considerably in the last few years," he said.

While admitting that both systems have their drawbacks, Triplett said he favors the rental-equivalency method because it has fewer unstable components than the user-cost method.

Triplett said massive swings in housing prices caused by speculation, combined with other volatile variables makes the average cost of owning a house difficult to compute.

"It's conceivable using a user-cost index that you could get a negative cost for living in a house," he said.

In addition to the discrepancies caused by the housing ef-

fect, some economists point out that the indexes' different weighting systems are unable to account for changes in consumer's buying habits, Triplett said.

For example, he noted that because of a drastic increase in price "people are buying less housing, sirloin and gas."

"But the index doesn't take account of substitution," he said.

Nevertheless, Triplett said that weighting differences have a minimal effect on the overall figures.

Triplett said that the BLS is considering making changes in its indexing system to make it more efficient. But because a number of organizations such as labor unions and government employers use the CPI to make their own calculations and adjustments for inflation, those changes will be slow in coming, he said.

"We don't slip in changes in the middle of the process."

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## Telescope needs repair work

The University's Pine Mountain Observatory is in need of financial aid again — this time to help pay for repairs of its 32-inch diameter telescope.

James Kemp, a University physicist and researcher at the observatory, is trying to raise \$7,600 to repair the largest of the three main telescopes at Pine Mountain. Last spring Kemp was involved in a battle with state legislators to renew the observatory's \$25,000 oper-

ating budget.

Pine Mountain Observatory, located 36 miles southeast of Bend, is acknowledged by local scientists as the best astronomical facility in the Northwest. Since 1967 it has served as both a research site and an educational tool for school groups as well as amateurs.

According to Kemp, a bearing went out in the drive system of the telescope, and the instrument has been returned to the makers in Richmond, Washington. The company plans to

not only repair the damage, but also to modify the structure so that similar mishaps will not occur in the future.

Kemp says he was authorized by the University to raise funds for the telescope. So far, he has collected about a third of the money needed from individuals and businesses in central Oregon.

Donations for money to repair the telescope can be sent to the Pine Mountain Fund in care of "U of O Foundations."