Defining Price Stability in Japan: A View from America

David E. Weinstein
Columbia University and NBER

Christian Broda
University of Chicago GSB and NBER
Objectives

- Some basic principles behind CPI measurement
- Some differences between the way the US CPI is computed and the way the Japanese CPI (JCPI) is
- Some estimates of the biases
CPI is a Critical Number for Japanese Policy

- Serves as the basis for monetary policy:
  - “Price stability is, conceptually, a state where the change in the price index without measurement bias is zero percent. Currently, there seems to be no significant bias in the Japanese consumer price index.” – Bank of Japan, March 9, 2006

- An upward bias in the CPI could have major fiscal implications
  - Much of the 2004 pension reform surrounded the indexing of pensions
  - If the CPI is biased upwards, then this could have major fiscal implications for Japan
Ministry of Internal Affairs and Communications and Shiratsuka denies evidence of bias

- From the MIAC website
  "It is said that the Japanese CPI might be 0.9 point higher than the actual situation. What is the truth?"
  [This is based on] a guestimate in a paper written by an official of the Bank of Japan [Shiratsuka] in 1998, in which this official expressed his personal view. However, his guestimate is not well grounded." – MIAC website

- I’ll review some of the evidence
Comparing the CPI in Japan and US
The US CPI contains two levels of aggregation

- The *Upper* level, 211 strata level price *indexes* in each of 38 areas (or regions) are combined either using a Laspeyres formula in the case of the standard CPI or a Tornqvist formula when using the chained CPI.

- The *Lower* level contains approximately ten price *quotations* per item-area (85,000 price quotes all)
  - Almost all of the deviations from the standard Laspeyres index in the US case – hedonics, geometric averaging of prices, sample rotations, etc. – occurs at this lower level.