

Testimony by J. Steven Landefeld
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Senate Commerce Committee Hearing on “Rethinking GDP”
March 12, 2008

Mr. Chairman, distinguished members of the Committee, it is a pleasure to be here and I appreciate the invitation to testify today at your hearing on “Rethinking GDP.”

The United States possesses some of the best-developed sets of Gross Domestic Product (GDP) and related accounts in the world. These accounts, which are collectively known as the National Income and Product Accounts, have been regularly updated over the years and have served researchers, the business community, and policymakers alike to measure:

- long-run growth, productivity, and standards of living;
- short-term business cycles;
- the decomposition of growth into inflation and real output;
- changes in the composition of output and industrial performance;
- the adequacy of saving and investment; and
- changes in the size and composition of exports and imports and other components of GDP and National Income.

However, since their inception in the 1930s, issues have been raised about the scope and structure of these accounts. Simon Kuznets, Nobel medalist and one of the primary architects of the U.S. accounts, recognized the limitations of focusing on market activities and excluding household production and a broad range of other nonmarket activities and assets that have productive value or yield satisfaction. Further, the need to better understand the sources of economic growth in the postwar era led to the development – much of it by academic researchers – of various supplemental series, such as investments in human capital and the value of natural resources. More recently, a report by Secretary Gutierrez' Advisory Committee on Measuring Innovation in the 21st Century Economy called for expanding the scope of the accounts to cover business investments in Research and Development (R&D) and other intangible assets.

A recent volume, *A New Architecture for the U.S. National Accounts*, edited by Professor Dale Jorgenson of Harvard, William Nordhaus of Yale, and me, reviewed these issues in the context of an assessment of the GDP accounts and found that the existing accounts have served the Nation well through incremental updates and expansions, and that there was no need for a new paradigm. What was called for was a further expansion and integration of the accounts produced by the Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), and Federal Reserve Board (FRB) in coordination with the U.S. Census Bureau (Census), a primary supplier of source data.

The integration and expansion would consist of: (a) an integration of the accounts to include a complete production account to improve the analysis of growth and

productivity; (b) an expansion of the accounts to cover goods and services that are important to the analysis of growth and productivity, but not fully captured in the existing accounts, such as mineral resources, human capital, and R&D; and (c) an expansion of the accounts to nonmarket goods and services that are important to the economy, but also have large economic welfare implications – such as environmental and health accounts.

Expansion to these areas, however, will not be easy nor without cost. Past efforts by outside researchers have foundered on the inevitable problems of subjectivity and uncertainty inherent in measuring health, happiness, and the environment. It was feared that the inclusion of such uncertain and subjective values in GDP would seriously diminish the essential role of the national accounts to financial markets, the Federal Reserve Board, the Treasury, and the Congress in measuring and managing the market economy.

Therefore, several National Academy of Sciences studies, and the United Nations System of National Accounts guidelines for compiling GDP (see References), as well as the *New Architecture* volume, have all concluded that such an expansion of the GDP accounts should take place in supplemental, or satellite, accounts that extend the scope of the accounts without reducing the usefulness of the core GDP accounts. They also conclude that such an expansion should focus on economic aspects of non-market and near-market activities – the economy’s use of energy resources or the impact of investments in health care costs on productivity and growth – and not attempt to measure the full welfare effect of such interactions.

Finally, such an expansion of work would require interdisciplinary research among economists and such subject area experts as epidemiologists, physicians, geologists, and engineers, requiring cooperation across government agencies and with private sector experts. It would also require the design, development, and collection of data from new surveys. In an environment of constrained resources, it is critical that any such expansion not occur at the expense of urgently needed funds to maintain, update, and improve the existing GDP accounts.

Thank you. I will be pleased to answer any questions you may have.

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