A New GNP?

Most Americans regard the gross national product (GNP) as the basic gauge of the nation's economic progress. But Eisner, president of the American Economics Association, writes that many specialists believe that the official GNP figures are deeply flawed.

The GNP is calculated from the U.S. Commerce Department's National Income and Product Accounts (NIPA), a kind of national balance sheet. Eisner believes that it contains many anomalies that distort our picture of both the size of the U.S. economy and its overall strengths and weaknesses.

For example, the NIPA does not include the value of cooking, cleaning, child care, and other services provided by housewives. But, if a housewife takes a paid job and hires a cook, a maid, and a baby sitter, those services (and the woman's salary) *are* counted, and ultimately show up as increases in GNP.

The NIPA also treats many outlays in strange ways. If Hertz or Avis buys a car, notes Eisner, the purchase is counted as a capital investment. But if the federal government buys a car, the outlay is classified under "government purchases of goods and services"; if a family purchases a car, the outlay is treated as "consumption." Similarly, in the NIPA, a student's tuition payments for college are counted as consumption, even though he is adding to the nation's "human capital."

Assessing these and other factors, Eisner draws a new picture of the nation's economic health. He believes that the GNP is actually much larger than the official data indicate ($4.56 trillion in 1981, versus $3.05 trillion). But it is growing more slowly (by 2.52 percent annually during 1966–81, rather than 2.91 percent), largely because the government and household "economies" have lagged behind business. Eisner's revisions also suggest that investment is growing faster, and consumption more slowly, than official data show.

Government statisticians already have altered the way they reckon inflation and unemployment. An overhaul of GNP computations, Eisner believes, is long overdue.

Predicting the (Last) Depression

In December 1929, two months after Wall Street's Black Tuesday, the Harvard Economic Service assured its clients: "1930, as a whole, should prove at least a fairly good year." In January 1930, the nation's other leading forecaster, Yale's Irving Fisher, wrote that "it would not be surprising if by next month the worst of the recession will have been felt and improvement looked for."

With the luxury of hindsight, such rosy predictions bring a smile to the lips. Indeed, it was not until late in 1931 that the Harvard team, headed by economist W. L. Crum, concluded that "adequate grounds for forecasting business revival have not yet appeared;" Fisher remained optimistic.

Dominguez, of Harvard, and Fair and Shapiro, both Yale researchers, examined the Depression-era forecasters' data and methods. They also used modern economic information and statistical techniques to see if these could have predicted the collapse. Their conclusion: "The Depression was not forecastable."

Most modern theories about the causes of the Depression suggest that it could not have been predicted. Milton Friedman blames mistakes made by the Federal Reserve Board during 1929–33; Charles Kindleberger attributes it to panic on Wall Street. Harvard and Yale, the authors conclude, managed only a 0–0 tie in the contest to forecast the Depression.