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.

Measuring Income

"Income" by Karl Zinsmeister, in *Public Opinion* (Nov./Dec. 1988), 1150 17th St. N.W., Washington, D.C. 20036-9964.
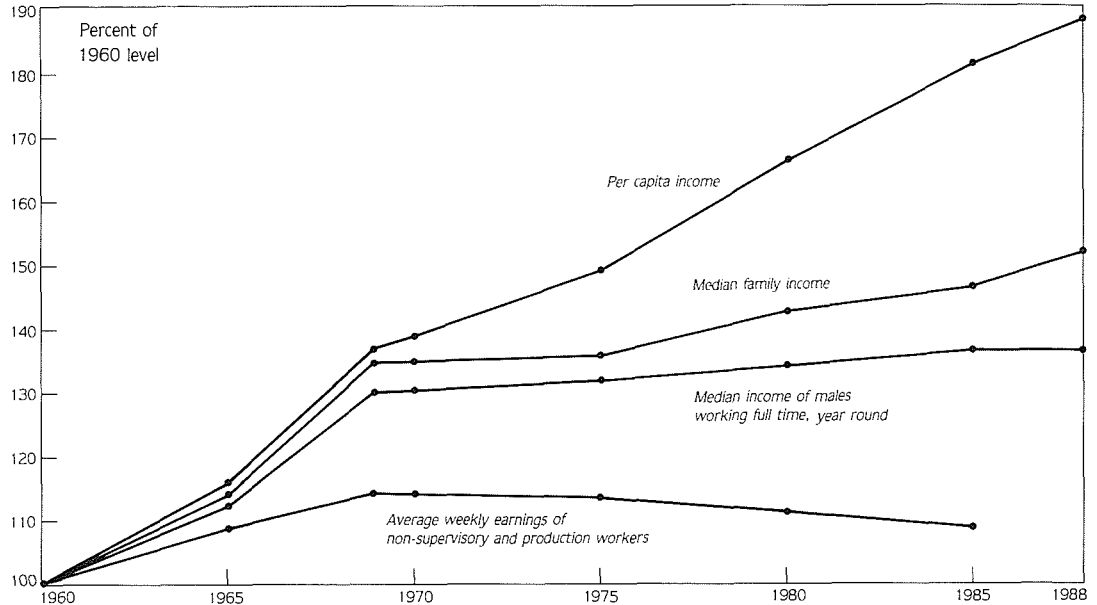
"Statistics will prove anything, even the truth," goes an old saying. And as Zinsmeister, an American Enterprise Institute researcher, indicates in the chart above, the various statistics on Americans' personal income that are widely invoked in today's political debates can accommodate several different "truths."

• *Average weekly earnings of non-supervisory and production workers* is "beloved of candidates challenging political incumbents" because it suggests that Americans are earning less than they were in 1969. But this indicator is artificially low, because, among other factors, work weeks are somewhat shorter and part-time workers far more numerous than they were two decades ago.

• *Median income of males working full time, year-round* adjusts for some of these deficiencies, but has other shortcomings. For example, it misses the "significant jump" in female earnings in recent years.

• *Median family income* is another widely-cited measure. It is distorted by the radical changes in family characteristics over the years. More wives are working,

and they are bearing fewer children, pushing up median family income; but a downward adjustment must be made for the major growth in the number of families headed by women who are either divorced or never married.

• *Per capita income*, which shows the most significant growth, is calculated by dividing total personal income in the U.S. by the number of men, women, and children. It is biased upward, in part because there are proportionally fewer children (non-earners) in the population today than there were 27 years ago.

As if to complicate matters, the U.S. Labor Department has created two new indices (not shown here) in recent years. *Cash pay per hour* grew by seven percent between 1980 and 1988. *Compensation per hour*, which includes cash and benefits (e.g., health insurance) increased by 11 percent during the same period.

Which is the most accurate gauge? Take your pick, says Zinsmeister. Americans' personal income has increased in recent decades, but nobody can say with any certainty by how much.