

Why the Doom and Gloom Prophets May Be Way Off Base

Could the U.S. economy be growing more than the official growth figures let on?

In a recent National Bureau of Economic Research working paper, "Why is Growth Better in the United States Than in Other Industrial Countries," Martin S. Feldstein, former chairman of the Council of Economic Advisers, suggests that government statisticians have been underestimating the true rise in real U.S. gross domestic product.

He suggests they have failed to accurately account for quality improvements and the value of newly created goods and services in their measurements.

According to Feldstein, "the [Bureau of Labor Statistics] concludes that there has been a quality improvement if and only if there is an increase in the cost of making the product."

This does not accurately reflect quality improvements because quality improvements can, and frequently do, come alongside decreased production costs.

Feldstein's second dissatisfaction with GDP measurement is that it does not accurately capture the added value to consumers that some new products create. He argues that new products often make societal contributions that are not reflected in real output or real GDP growth.

He gives the example of "statins, the remarkable drug that lowers cholesterol and reduces deaths from heart attacks." Feldstein complains that, despite the substantial contribution statins make to public health and well-being, that added value was not reflected in real output or GDP growth when their use

skyrocketed in the early 2000s.

Such problems matter. Poor growth performance is often cited to justify new government interventions in our economy.

As Feldstein goes on to note, even using such faulty GDP calculations, the economic growth of the United States far outweighs that of European and other industrial countries.

Feldstein provides the following 10 reasons (in no particular order) for the higher rate of real economic growth in the U.S. compared to slower growth in Europe:

1. An entrepreneurial culture.
2. A financial system that supports entrepreneurial activities.
3. World-class research universities.
4. Labor markets that generally link workers and jobs unimpeded by large trade unions, state-owned enterprises, or excessively restrictive labor regulations.
5. A growing population, reflecting both natural growth and immigration.
6. A culture and a tax-transfer system that encourages hard work and long hours.
7. A supply of energy that makes North America energy independent.
8. A favorable regulatory environment.
9. A smaller size of government than in other industrial countries.
10. A decentralized political system in which states compete.

Until the government improves the methods it uses to calculate GDP growth, Americans should take the official numbers with a grain of salt. When factors such as Feldstein's 10 reasons for high economic growth are strong, innovation and technological advancements that improve quality of life occur more

frequently.

While the Bureau of Labor Statistics reported GDP growth doesn't take such things into account, The Heritage Foundation's Index of Economic Freedom does. {eo}

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