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UNITED STATES

## GDP: A digital remix

Gross Domestic Product consistently understates US economic growth by 0.75% and overstates inflation by 0.4%, as contributions from the digital sector are routinely mis-measured. This is the conclusion of our new report by **Mark Cliffe** in collaboration with **John Calverley** of Calverley Economic Advisors, which seeks to challenge the old economic order



### Executive summary

GDP is a complex statistic with a history of errors, controversies and changing methods and definitions. In seeking to 'remaster' GDP, this report examines ways of fine-tuning its composition. We pay particular attention to the impact of the rapid digitalisation of the economy that has been gathering momentum over the past 25 years. On conservative assumptions, we believe:

- Official data understates US GDP growth by 0.75% per annum and overstates inflation by 0.4% due to inadequate measurement of the digital economy and the exclusion of investment in certain intangibles.
- We calculate the under-measurement of the digital sector to be about 0.5% of GDP annually, which arises because of rapid price declines, the plethora of new goods and services and the extent of free goods. The improvement in quality is significantly under-measured so that output is understated and inflation

overstated.

- Correctly accounting for all intangibles by including them as investment would add 0.25% to GDP annually. Intangibles still left out by US statisticians include investment in brands, some types of intellectual capital, training, and the value of a firm's organisation and structure.
- The under-measurement of GDP is probably even greater than the 0.75% p.a. we claim, perhaps 1% annually or even as much as 2% because of the growing importance of services in general, where the calculation of quality improvements is much harder than for manufacturers.

### More like this

More than a decade after the global financial crisis, macroeconomists have failed to absorb three crucial sets of lessons. Their models are still struggling – and mostly failing – to cope with disruptive change, and with the fact that both balance sheets and inequality matter. Read more from Mark Cliffe on 'What Economists Still Need to Learn' [here](#).

### Author

#### Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

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