

LETTERS TO THE EDITOR

Bringing U.S. Productivity Data Out of the Shadows

"U.S. Productivity: Missing or in Hiding?" (page one, July 17) tells only part of the story of the unmeasured contributions of advancing technologies to the economy. Undercounted productivity gains and resulting equivalent overstated inflation data have been biasing policy makers to undergrow their economies globally. I address these points in my book "Digital Deflation: The Productivity Revolution and How It Will Ignite the Economy" (McGraw-Hill, 2004). When you buy a laptop for \$1,000 you get better features and functions than last year's \$1,000 model, which is good deflation.

For the Fed, it is important to understand how much productivity growth is understated and how much inflation is overstated. Our research a decade ago estimated uncounted quality improvement at about 2% per year on the GDP deflator. This means that inflation in the total economy was overstated by about 2% and productivity gains understated by about 2%.

The implication for monetary policy is that the Fed can afford to be more stimulative because digital deflation in the "new economy" is greatly offsetting inflation in "old economy" goods and services.

It goes a long way to explain why the Fed has had such great difficulty growing the economy and why inflation has remained so low even after unprecedented monetary stimulus.

Many have complained that technology is destroying jobs. Ironically, it is rather that our inaccurate counting of technology's gift of greater productivity gains and lower inflation has led to insufficient monetary accommodation, subpar economic growth and the resulting lack of job creation globally for over a decade.

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