Accounting for the New Economy

This paper begins by reviewing national accounting concepts in the analytical framework of capital maintenance developed in the broader economics/accounting literature (eg Edwards, Kay and Mayer 1987). It shows how these concepts fit well with recent emphasis in popular debate on 'sustainability' as a basis for the measurement of economic growth.

The present paper is, however, concerned with a more limited aspect of this accounting framework – how 'new economy' sectors, particularly computers and software, should be treated. It argues that investment expenditures should be measured by reference to their opportunity cost in terms of current consumption and reviews the most appropriate approaches to the measurement of depreciation. It is shown that the use of hedonic price indices for investment goods is theoretically unjustifiable, even if the practical problems of implementation could be overcome.

In the light of this analysis, estimated are presented of the impact of more appropriate accounting conventions on economic growth and total factor productivity in the United States and some major European economies. We expect to show that. far from being understated, the effect of 'new economy' activities on reported output and economic growth is overstated and, in the case of the United States, substantially overstated. We also comment on the division of 'new economy' benefits between capital using and capital producing sectors, showing that the controversy is more about statistical convention than economic events.

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June 2001