World Statistics Day
October 20th, 2010

“GDP and the National Accounts: 75 Years of Statistics Guiding Economic Policy”

Remarks by

J. Steven Landefeld
Director
Bureau of Economic Analysis
I have chosen to discuss the development of GDP and the National Accounts on World Statistics day, not only because I am the Director of BEA, but because they are an inspiring example of the development of statistics to meet policy needs that has helped to sustain economic growth and raise standards of living in the United States and around the world.

- The National Accounts are also emblematic of the development and success of the entire U.S. statistical system because the accounts are built on a rich set of price, employment, production, trade and finance data produced by the Census Bureau, the Bureau of Labor Statistics, the IRS Statistics of Income, and used by most of the other U.S. statistical agencies, the Federal Reserve Board and Treasury, and by the private sector.

- Prior to the development of the national accounts in the 1930s there was only fragmentary and sometimes conflicting data on the state of the economy.

  - As a result, Presidents Hoover and Roosevelt, and their advisers, had no comprehensive information on the state of the economy and were left to develop economic policy during the Great Depression with such business indicators as manufacturing production, factory employment, department store sales, and freight car loadings.

- In response to this critical gap in data, the Department of Commerce worked with Simon Kuznets of the National Bureau of Economic Research to develop a comprehensive and consistent measure of economic activity based on national income in the aggregate and by industry.

  - These national income accounts were delivered to the Congress in 1934. Regular annual estimates begun in 1935 and were quickly used by President Roosevelt in his State of the Union address in January of 1936.

- World War II planning needs led to the extension of the accounts to a measure of production in the aggregate (GNP) and by type of spending (For those of you that had to endure Econ 101: C+I+G+(X-M)).
These national product accounts were introduced in 1942 and immediately used in war and then post-war planning activities.

Over time, the National Income and Product Accounts expanded in response to business and policymakers needs to a comprehensive set of integrated national, international, regional, and industry accounts.

The national accounts and associated data, in combination with better informed policies and institutions (including deposit and unemployment insurance) have contributed to a reduction in the severity of business cycles and a post war era of strong economic growth.

The last of the long string of depressions recorded in economic history was that in the 1930s. During the Great Depression, real GDP dropped by almost 27 percent and unemployment reached 25 percent.

Since then, the average decline in real GDP during recessions was 2 percent and unemployment averaged 6 percent.

Today, GDP, the CPI, and a host of Census indicators are key inputs into the nation’s economic decision-making.

BEA’s national accounts, GDP and other data are the baseline for Federal Reserve Board projections and monetary policy.

Data on real GDP growth, inflation, wages and salaries and other incomes are critical inputs to the Federal Budget:

- For example, according to OMB, ½ of 1% lower growth in real GDP can increase the projected deficit by over 1 and ½ trillion dollars.

National accounts data are not only critical to monetary and fiscal policy but provide objective data used in funding formulas to assure open and equitable distribution:

- State personal income per capita data are used to allocate over $300 billion dollars in Medicaid and other federal funds to states and localities.
• Virtually every state and many localities use -- by law or by practice -- BEA regional data for budget projections, spending caps, the allocation of funds, and for planning.

• In short, I believe that the history of the National Accounts illustrates the importance of government providing its people with accurate and objective statistics relevant to the decisions made by their government. And, in order to end with words more eloquent than mine, I will close with three quotes that support the central role of statistics to a democracy:

  o First Thomas Jefferson, “Information is the currency of democracy.”

  o Second, Abraham Lincoln, “Let the people know the facts, and the country will be safe.”

  o And third, an important reminder from Mark Twain, “A lie can travel half way around the world while the truth is putting on its shoes.”

• Thank you very much and may each of you have a happy World Statistics Day.