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ABSTRACT

Durable Goods and ICT: The Drivers of Euro Area Productivity Growth?

The member states of the European Union are presently enjoying unprecedented levels of economic welfare (Carreras & Tafunell, 2004; Maddison, 2006). The impacts of technology and productivity in this great transformation are by now well documented. As the focus of the economy shifted from primary production to secondary production and services also family dynamics changed. Extended families are no longer needed; instead nuclear families and single person households are nowadays more common. A major fact enabling small family units to cope with household production is the availability of technically advanced consumer durable goods. We argue that households *de facto* treat the purchase of durable goods as investments; a point which the present System of National Accounts (SNA93) disagrees with (although rents for owner occupied households is imputed into GDP; it can be argued that the treatment of durables as capital assets conceptually does not differ from the present treatment of owner occupied dwellings). This is not captured by the economic analysis based on current statistical conventions. Whereas Dale Jorgenson, the grand old man of growth accounting, consistently treats consumer durables as capital inputs both on the output and the input sides.

Hulten (2006) recently defined investments as such expenditures that are made at the expense of current consumption in order to increase or maintain future consumption. Without doubt the greatest force impacting recent economic production as well as everyday life is information and communications technology (ICT). Computers, the internet and mobile phones have altered our way of living and doing business for good. Information and communications technology affects economic growth both as a component of aggregate output in the form of ICT production and as a component of aggregate input in the form of ICT capital services.

The purpose of this paper is to estimate the effect of durable goods and ICT on Euro Area GDP growth and productivity change. In this exercise expenditure on consumer durables is recorded as capital investment. This impacts both the levels and growth rates of the capital stock, productivity and GDP. This treatment makes the treatment of consumer durables symmetric to that used in the Systems of National Accounts to account for owner occupied dwellings. As we also account for the effect of ICT the true proximate sources of growth are pinpointed.