INFORMATION TECHNOLOGY AND THE G7 ECONOMIES*

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A consensus has emerged that the remarkable behavior of Information Technology (IT) prices provides the key to the surge in U.S. economic growth after 1995. The relentless decline in the prices of information technology equipment and software has steadily enhanced the role of IT investment. Productivity growth in IT-producing industries has risen in importance and a productivity revival is underway in the rest of the economy.

The surge of IT investment in the United States after 1995 has counterparts in all other industrialized countries. It is essential to use comparable data and methodology in order to provide rigorous international comparisons. A crucial role is played by measurements of IT prices. The U.S. national accounts have incorporated measures of IT prices that hold performance constant since 1985. Schreyer (2000) has extended these measures to other industrialized countries by constructing "internationally harmonized prices".

The acceleration in the IT price decline in 1995 triggered a burst of IT investment in all of the G7 nations— Canada, France, Germany, Italy, Japan, the U.K., as well as the U.S. These countries also experienced a rise in productivity growth in the IT-producing industries. However, differences in the relative importance of these industries have generated wide disparities in the impact of IT on economic growth. The role of the IT-producing industries is greatest in the U.S., which leads the G7 in output per capita.

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