

Missing Growth in the Lost Decade*

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Abstract

Standard measurement often impute innovation from creative destruction and new varieties using surviving products. This can lead to an understatement of growth, if surviving products improve less than creatively destroyed products and new varieties. This paper estimates this bias for Japan using establishment-level data from the Japanese Census which covers all private businesses. We find that the correction increases Japan's productivity growth by 0.39 percentage points per year between 1997 and 2009 with most of the missing growth coming from non-manufacturing industries. As this bias is smaller than the bias found for the U.S., our results imply 0.23 percentage points per year bigger difference between productivity growth rates in the U.S. and Japan. The larger difference mostly stems from a larger difference in productivity growth rates for non-manufacturing industries.

Keywords: inflation measurement, growth measurement, lost decade, creative destruction, productivity

JEL classification: E31, O31, O47

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