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# GDP and Beyond

## Summaries from the 2020 Annual Meeting of the American Economic Association

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***Beyond GDP: Why and How?*** Gross Domestic Product (GDP) has been hailed as one of the great "inventions" of the 20th century.[1] Yet, recent developments—including worsening inequality of income, disparities in economic outcomes across regions, disparities in health care, and climate change—have highlighted shortcomings of GDP as a measure of well-being (which I will refer to as social welfare). This tension has led to calls for measures that go "Beyond GDP" to better measure social welfare. These comments offer my views on *why* the Bureau of Economic Analysis (BEA) should develop measures that go beyond GDP and on *how* the BEA could and, in my view, should do that.

The starting point for an informed discussion of GDP is to understand that it is (and was designed to be) a measure of production; that is, the value of goods and services produced in a country in a given period, say, a quarter or a year. While the value of production is an important contributor to social welfare, GDP explicitly is not a measure of welfare, which includes factors not included in GDP. Nevertheless, GDP per person is widely used as a proxy for social welfare comparisons across time and across countries, despite economists' frequent (but often gentle) reminders that it is a measure of production. As noted, the tension between GDP and social welfare has increased in recent years, generating greater urgency for the development of measures that better gauge social welfare.

How should the BEA go beyond GDP? I believe four areas warrant the highest priority. ***First,*** to more fully understand the distribution of economic outcomes across different groups, I believe BEA should <u>develop and publish distributional accounts</u> consistent with the National Income and Product Accounts. These accounts could track consumption and income by decile of income. Such accounts would show how the economy is working for different segments of the population and would highlight what fraction of overall economic growth is going to different income deciles. Fortunately, considerable progress has been made by staff at BEA in developing such accounts.

***Second,*** I believe the BEA should develop a <u>composite measure of social welfare</u> and publish it in a satellite account. Why should BEA do this? The public, policymakers, and financial market participants react to and focus on what is measured. Indeed, a composite measure that reflected the distribution of income would concentrate attention on how rising inequality affects social welfare in a way that separate releases for GDP growth and distributional indicators published at different times just cannot do. Moreover, there is strong demand from many quarters for such a measure. If the BEA does not begin producing one, others will. And, given BEA's expertise and data access, a measure produced by BEA would be higher quality than some alternatives that might gain traction in the absence of an officially-sanctioned BEA measure. Put another way, a good measure of social welfare from BEA will drive out bad measures—a sort of reverse Gresham's Law.

One challenge in proceeding down this path is the proliferation of possible composite measures of social welfare. Ernie Berndt's comments highlighted some possible measures and there are many others that could be considered, including work by Jones and Klenow (2016), Hulten and Nakamura (2019), Brynjolfsson et al (2019), and others. How to choose given the wide range of factors that affect social welfare? In my view, the most important element to include is the distribution of income or consumption. Thus, I believe that a valuable first step would be to develop and publish a composite measure that combines the average value for an economic indicator—such as consumption per person—with its distribution across the entire population. And, fortunately, a methodology that does this for consumption per person already has been developed by Jorgenson and Slesnick (2014). Their methodology is elegant, generates sensible empirical results, and is implementable now. Efforts to include other factors in a composite measure of social welfare could be considered down the road as the research on those measures progresses to a more advanced stage. That being said, I believe that BEA should not entertain the idea of trying to combine wide-ranging social indicators with core economic variables in a single measure; developing sensible weights for such combinations seems to me to be an impossible task.

***Third and fourth,*** I believe that the BEA should further its efforts to go beyond GDP by regularly publishing measures of household production and human capital in satellite accounts. In addition, I would encourage the BEA to continue its excellent work on improving the measurement of components of existing GDP. Any reasonable measure of social welfare will have GDP or some of its components as key inputs and so making the measurement of those components as accurate as possible will enhance any measures of social welfare that are developed.

The time seems right to push beyond GDP. Given that the most novel part of this note is the argument that BEA should produce a composite measure of social welfare, I offer a haiku to reinforce that idea:

> To measure welfare,
> Composite Stat is useful.
> Yes! Its time has come

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1. See the January 2000 issue of the *Survey of Current Business*.

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