

Looking Beyond GDP to Evaluate Societal Priorities

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Almost everyone is familiar with Gross Domestic Product (GDP) and its use as a measuring stick for economic growth and progress. What we don't often think about, however, is what is included – and perhaps more importantly – what is left out. GDP does not track real and tangible activity such as the sale of used merchandise, important tasks performed at home, barter, volunteer work, transfer payments by the government, positive or negative externalities, or black market transactions.

Simon Kuznets developed the modern concept of GDP in 1934, though he warned against using the statistic as a gauge of overall well-being. Yet, in many ways, that is exactly what has happened. This often produces some odd, counterintuitive results.

Note, for example, that that GDP counts a pollution event twice. The Deepwater Horizon oil spill in 2010 in the Gulf of Mexico first increased GDP while BP plc attempted to produce crude oil. Then, after the disaster, the cleanup efforts also raised GDP. Essentially, GDP is more like a measure of how busy we are within the realm of the market – whether the effort is productive or not, whether the activity increases societal well-being or not. In a way, we might characterize GDP with an old joke: “I have no idea where we're going, but we're making good time.”

Further, non-productive activity like defense spending significantly raises GDP. An admonition by Dwight Eisenhower – the last former general to hold the office of president – is instructive. He cautioned against over-allocating productive resources into defense budgets because of its corresponding impact on hunger, education, healthcare and the provision of other fundamental services. Yet currently the U.S. maintains nearly 800 military facilities in over 70 countries and territories across the globe. By comparison, Britain, France and Russia combined maintain around 30 foreign bases.

Rather than emphasizing GDP so heavily, the press and policymakers should consider alternative measures such as the Genuine Progress Indicator. GPI tracks, for example, the value of volunteer work, the value of higher education, cost of crime, loss of leisure time, and costs of pollution, among other items. The measure treats pollution as a decrease in overall well-being, generally equal to the cost of cleanup plus any negative effects incurred before restoration is complete. There is no boost to economic activity in the way that GDP sometimes creates a fiction of progress.

While we often associate GDP with jobs in the private sector, it only tells us part of the story. Under-provisioned public goods generally become the responsibility of government and volunteers. Examples include research and development into nascent areas such as fusion power and gene therapy, or assuaging the plight of the homeless. Depending on the speed of planetary warming and the impact of climate change, resilience and preparedness strategies will engage large segments of the workforce as droughts, hurricanes, typhoons and other events become more prevalent – activities typically outside the domain of the private sector.

No doubt, many important creative tasks remain ahead for humanity in the coming years. As a way to evaluate priorities, the use of welfare indicators more robust and meaningful than just GDP appear warranted. We are not purely pecuniary creatures and our political economy should reflect that reality.