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THE CASE AGAINST GDP

GDP measures the total monetary value of goods and services produced within our national borders in a given period. Developed in the 1930s to help policymakers gauge our recovery from the Great Depression, essentially GDP is a measure of raw economic activity and was considered even by its chief architect, Simon Kuznets, to be a very poor instrument for measuring economic development, let alone social progress. But in the decades after World War II and especially in the last two decades, GDP has become synonymous with the broader welfare and progress of society, and our entire economic policy framework and economic debate have come to revolve around the goal of maximizing the growth rate of GDP. From promoting credit-fueled consumerism, to subsidies for sprawl and deforestation, to deregulating capital and financial flows, to the relentless pursuit of cheap, dirty energy with high environmental costs, GDP growth has become the unchallenged standard and guiding idea in most of our policy-making, politics, and public debate about economic development.

Yet, even as it has become the dominant economic measure and benchmark of progress, it is increasingly understood that GDP obscures or excludes essential aspects of welfare and sustainability in our economy and society, and as a consequence, greatly limits how we gauge policy needs and develop policy responses. This is not to say that GDP or the broader system of national accounts should be dismantled or ignored. Any credible reform agenda in this area recognizes that the system of national accounts provides important information about a range of economic realities, including personal income, savings, and consumption, gross and net capital formation, imports and exports, and net foreign investment; and as a summary measure, GDP is a good general barometer of levels of economic activity. Obviously, we should not stop using this system as a source of economic information.

The problem lies in how GDP has come to play such a defining role in public debates about economic performance and social progress, and ultimately in policy-making. In an economic narrative dominated by the growth rate of GDP, significant and growing problems at the household level, in societal conditions and well-being, in environmental welfare, and in other key dimensions of our stability and progress as a nation, are held at the margins of debate, many steps removed from public attention let alone serious political action.

The case against GDP can be broken down in seven basic ways:

Distribution: GDP tells us nothing about how growth is distributed at the household level. For example, while U.S. GDP more than doubled over the last 30 years, median household income grew only 16 percent. Nearly all of the GDP growth went to the top 20 percent and most of those gains went to the top 10 percent of households. Whether GDP goes up or down, it gives us no sense of who is benefiting from the gains or how the average household is faring.

Quantity vs. Quality: GDP measures the quantity of goods and services but not the quality. Money spent on alcohol and gambling is just as "good" by GDP standards as money spent on books and exercise. What is good for GDP is often harmful by other important criteria such as health and social well-being.

Defensive Expenditures: GDP does not distinguish between expenditures that positively increase human welfare, such as college tuition, and "defensive expenditures" that protect against threats to current welfare, such as cleaning up industrial disasters, treating socially-conditioned diseases (smoking-related, obesity, etc.), and military spending to protect national interests from real or perceived threats.

Real Economic Value vs. Borrowed and Speculative Gains:
GDP tells us nothing about the sustainability of economic activity. Consumption financed by borrowing adds to GDP just like consumption financed by real gains in household buying power. Financial services add to GDP whether by allocating capital for productive investment or by fueling gigantic asset bubbles with speculation and transfer of risk.

Depletion of Natural Capital and Ecosystem Services: GDP essentially ignores environmental problems. Economic activity that depletes natural resources is just as valuable, by GDP standards, as economic activity fueled by renewable resources. Activities that contribute to global warming add value to GDP today even as they threaten massive economic costs in the future due to climate change impacts.

Non-Market Activities: GDP tells us nothing about the value generated by non-market services provided in the household, in the public sector, in civil society, and in the broader ecological systems that surround us. The human and social capital generated by parenting, education, voluntarism, community activities, green spaces and other aspects of public planning, etc., are not measured by GDP even though they substantially affect economic well-being and the overall productivity of society. So too, public output—the value generated by public spending in many areas—is not accounted for; nor is the output or social value of charitable services.

Social Well-Being: GDP does not always track with indicators of social well-being, such as rates of poverty, literacy, and life expectancy. For example, the United States ranks near the top for per capita GDP but at the same time has the highest poverty and incarceration rates in the advanced world. Likewise, levels of subjective well-being, including life satisfaction, feelings of security and autonomy, and trusting one's neighbors, are often higher in poorer countries with strong family and community structures than in wealthy countries characterized by social atomization and mass-consumerism.

In short, GDP ignores many "bads" from economic activity, counts many "bads" as goods, and fails to count many important goods that are not transacted in markets. While these shortcomings can be addressed as technical weaknesses in a particular statistical model, fixing GDP, or going "beyond GDP" with other measures, is not simply a problem of fixing the methods. Rather, the deeper problem is the economic model lying behind GDP and reinforced by our over-reliance on GDP. Depending on GDP promotes an economic model devoted to "growth at all costs," where "more" is equated with "better" and an expanding economy equals social progress even as average households do not benefit and the critical non-market dimensions of our lives and nation—our human, social, and environmental capital—are depleted for lack of adequate investments and protections. Changing our economic feedback system is a crucial step for refocusing public concern and bringing new policy demands into the mainstream of debate and decision-making about the nation's future.