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## Does GDP really capture economy's health?

**A Senate hearing Wednesday will revisit the debate on the economy's best known measure.**

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America's so-called gross domestic product is an enormous number and an important number, but is it the *right* number?

That's the question that comes before the US Senate Wednesday in an unusual hearing on the far from perfect science of measuring economic activity.

Few numbers have the cachet of GDP. The announcement of its growth rate each quarter provides a speedometer of economic growth or – perhaps in the next few months – recession.

And few numbers have the scale of the GDP. By latest tally, the annual production of goods and services in the United States has grown to about \$14 trillion.

Yet economists readily concede that GDP is not a one-number-fits-all view of what's going on. Some suggest changes to make it more useful and more accurate. Even at its best, they say, it should be used more as a gauge of activity than of overall progress.

"What we need to end up with is two separate accounts [of the economy] – a market price account and a quality of life account," says Rob Atkinson, an economist in Washington.

Creating such a system would be controversial and subjective, he says. "But still it is an opportunity to think more accurately about our economic well-being."

The GDP numbers, he explains, are rooted in the economy of the marketplace – totaling up the dollar value of big activities such as business investment and consumer spending, as well as government activity. It's useful in as far as it goes.

But economists point to several shortcomings: It focuses on aggregate numbers, not individual experience. Much useful activity that's not a money-based transaction is left out. And the report is a summation of quantity, not quality.

"Not everything that is in the monetary economy is of equal value," says Mr. Atkinson, who heads the Information Technology and Innovation Foundation (ITIF), a public policy research group.

Spending money to clean up an oil spill in Alaska, he says, is not the same as building a faster Internet connection. One is an investment in a more productive future, while the other is an effort that, while necessary, would have been best avoided in the first place.

Economists see room to improve lots of numbers tracked by the government, not just GDP. But this overview number has long faced criticism.

Wednesday's hearing, in fact, comes 40 years after Sen. Robert F. Kennedy delivered a speech that, in poetic phrases, called the numbers into question.

"It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country," Senator Kennedy said in 1968. "It measures everything, in short, except that which makes life worthwhile."

Some economists say the critique is not wholly fair. If a \$5,000 computer offers a 10-fold improvement on a \$500 computer, then quality shows up when those purchases are counted as consumer spending. And much learning goes into making those computers.

But Kennedy's overall point is as relevant today as then – some say maybe more so given that the system was developed for an industrial era. Today, the economy is increasingly service oriented. And with growing concern about climate change and species extinction, the impact of economic activity on the environment – something not measured by GDP – may be increasingly important for human survival.

"If the country has natural resources and you cut the forest down, that increases GDP," says Yoram Bauman, who teaches environmental economics at the University of Washington in Seattle. "But it's not clear that the wealth of society has increased, because the value was there all along in the trees."

Living standards, for many people, also include the gratification of a home-cooked meal. Yet unpaid work at home isn't counted as part of GDP, even though it produces real goods and services.

Various alternatives to measures of economic progress have been formulated. The United Nations tracks various indicators of human progress as a country-by-country gauge of living standards.

Private sector organizations have developed other measures, such as the index of sustainable economic welfare (ISEW) or the genuine progress indicator (GPI).

For drama, Wednesday's panel in a Senate subcommittee on interstate commerce may not beat congressional hearings with accused baseball players or embattled mortgage lenders. But it could kick-start some fresh economic thought.

"If I had 10 hours to spend lobbying for something, I would lobby for a carbon tax," not a revise of GDP, says Mr. Bauman. But better stats wouldn't hurt.