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## If the GDP is Up, Why is America Down?

*Why we need new measures of progress, why we do not have them, and how they would change the social and political landscape*

by Clifford Cobb, Ted Halstead, and Jonathan Rowe

Throughout the tumult of the elections last year political commentators were perplexed by a stubborn fact. The economy was performing splendidly, at least according to the standard measurements. Productivity and employment were up; inflation was under control. The World Economic Forum, in Switzerland, declared that the United States had regained its position as the most competitive economy on earth, after years of Japanese dominance.

The Clinton Administration waited expectantly, but the applause never came. Voters didn't feel better, even though economists said they should. The economy as economists define it was booming, but the individuals who compose it--or a great many of them, at least--were not. President Bill Clinton actually sent his economic advisers on the road to persuade Americans that their experience was wrong and the indicators were right.

This strange gap between what economists choose to measure and what Americans experience became the official conundrum of the campaign season. "PARADOX OF '94: GLOOMY VOTERS IN GOOD TIMES," The New York Times proclaimed on its front page. "BOOM FOR WHOM?" read the cover of Time magazine. Yet reporters never quite got to the basic question--namely, whether the official indicators are simply wrong, and are leading the nation in the wrong direction.

The problem goes much deeper than the "two-tiered" economy--prosperity at the top, decline in the middle and

at the bottom--that received so much attention. It concerns the very definition of prosperity itself. In the apt language of the nineteenth-century writer John Ruskin, an economy produces "illth" as well as wealth; yet the conventional measures of well being lump the two together. Could it be that even the upper tier was--and still is--rising on the deck of a ship that is sinking slowly into a sea of illth, and that the nation's indicators of economic progress provide barely a clue to that fact?

Ample attention was paid to the symptoms: People were working longer hours for less pay. The middle class was slipping while the rich were forging ahead. Commutes were more harried. Crime, congestion, and media violence were increasing. More families were falling apart. A Business Week/Harris poll in March imparted the not surprising news that more than 70 percent of the public was gloomy about the future.

Sounding much like the guidance department of a progressive New York grammar school, the Clinton Administration said that Americans were simply suffering the anxieties of adjustment to a wondrous new economy. Speaking in similar terms, Alan Greenspan, the chairman of the Federal Reserve Board, told a business gathering in San Francisco this past February that "there seemingly inexplicably remains an extraordinarily deep-rooted foreboding about the [economic] outlook" among the populace.

Those silly people. But could it be that the nation's economic experts live in a statistical Potemkin village that hides the economy Americans are actually experiencing? Isn't it time to ask some basic questions about the gauges that inform expert opinion, and the premises on which those gauges are based? Economic indicators are the main feedback loop to national policy. They define the economic problems that the political arena seeks to address. If the nation's indicators of economic progress are obsolete, then they consign us to continually resorting to policies that cannot succeed because they aren't addressing the right problems.

Today the two political parties differ somewhat in regard to means, but neither disputes that the ultimate goal of national policy is to make the big gauge--the gross domestic product--climb steadily upward. Neither questions that a rising GDP will wash away the nation's ills: if Americans feel unsettled despite a rising GDP, then clearly even more growth is needed.

This was clear in the months after the election, as the

media continued to report economy up, people down stories that never quite managed to get to the crucial question: What is "up," anyway? In July, Business Week ran a cover story called "The Wage Squeeze" that got much closer than most. The article showed remarkable skepticism regarding the conventional wisdom. But the magazine's editorial writers retreated quickly. Why aren't workers doing better even as corporate profits and "the economy" are up? "America just may not be growing fast enough," they said.

Furthermore, the GDP and its various proxies--rates of growth, expansion, recovery--have become the very language of the nation's economic reportage and debate. We literally cannot think about economics without them. Yet these terms have increasingly become a barricade of abstraction that separates us from economic reality. They tell us next to nothing about what is actually going on.

The GDP is simply a gross measure of market activity, of money changing hands. It makes no distinction whatsoever between the desirable and the undesirable, or costs and gain. On top of that, it looks only at the portion of reality that economists choose to acknowledge--the part involved in monetary transactions. The crucial economic functions performed in the household and volunteer sectors go entirely unreckoned. As a result the GDP not only masks the breakdown of the social structure and the natural habitat upon which the economy--and life itself--ultimately depend; worse, it actually portrays such breakdown as economic gain.

Yet our politicians, media, and economic commentators dutifully continue to trumpet the GDP figures as information of great portent. There have been questions regarding the accuracy of the numbers that compose the GDP, and some occasional tinkering at the edges. But there has been barely a stirring of curiosity regarding the premise that underlies its gross statistical summation. Whether from sincere conviction or from entrenched professional and financial interests, politicians, economists, and the rest have not been eager to see it changed.

There is an urgent need for new indicators of progress, geared to the economy that actually exists. We are members of Redefining Progress, a new organization whose purpose is to stimulate broad public debate over the nature of economic progress and the best means of attaining it. Accordingly, we have developed a new indicator ourselves, to show both that it can be done and what such an indicator would look like. This new

scorecard invites a thorough rethinking of economic policy and its underlying premises. It suggests strongly that it is not the voters who are out of touch with reality.

### **A Brief History of Economic (Mis)measurement**

The GDP has been the touchstone of economic policy for so long that most Americans probably regard it as a kind of universal standard. (In 1991 the government switched from the old GNP to the GDP, for reasons we will discuss later.) Actually the GDP is just an artifact of history, a relic of another era. It grew out of the challenges of the Depression and the Second World War, when the nation faced economic realities very different from today's. Through history economic measurement has grown out of the beliefs and circumstances of the era. As Western economies went from agriculture to manufacturing to finance and services, modes of measurement generally evolved accordingly. But during this century, and especially since the war, the evolutionary process has slowed to a crawl. The market economy has continued to change radically. In particular it has penetrated deeper and deeper into the realms of family, community, and natural habitat that once seemed beyond its reach. But even as this change has accelerated, the way we measure economic health and progress has been frozen in place.

The first estimates of national accounts in the Western world were the work of one Thomas Petty, in England in 1665. Petty's scope was fairly broad; he was trying to ascertain the taxable capacity of the nation. In France, however, a narrower focus emerged. The prevailing economic theory was that of the Physiocrats, who maintained that agriculture was the true source of a nation's wealth. Not surprisingly, their economic measurement focused on agricultural production. There was a great diversity of viewpoint, however, even in France. In England, a more industrial country, Adam Smith articulated a broader theory of national wealth that included the whole swath of manufactures as well.

But one of many important points overlooked by his ardent followers is that Smith excluded what we today call the entertainment and service economies, including government and lawyers. Such functions might be useful or not, he said. But all are ultimately "unproductive of any value," because they don't give rise to a tangible product. That view was certainly debatable. But Smith was asking a crucial question--one that has pretty much disappeared from economic thought. Is there a difference between mere monetary transactions and a genuine addition to a

nation's well being?

By the end of the nineteenth century England's economic center of gravity had shifted significantly from manufacturing to trade and finance. In this new economy Smith's views on national wealth began to pinch. Alfred Marshall, who articulated what is now called neoclassical economics, declared that utility, rather than tangibility, was the true standard of production and wealth. Lawyers' fees, commissions, all the paper shuffling of an abstracted commercial economy, were essentially no different from sacks of potatoes or carloads of iron. The economic significance of a thing lay not in its nature but simply in its market price.

This yoking of national accounting to the lowest common denominator of price was to have large implications. It meant that every item of commerce was assumed to add to the national well-being merely by the fact--and to the extent--that it was produced and bought. At the same time, it meant that only transactions involving money could count in the national reckoning. This left out two large realms: the functions of family and community on the one hand, and the natural habitat on the other. Both are crucial to economic well-being. But because the services they perform are outside the price system, they have been invisible in our national accounting.

Long ago this omission was understandable. In Adam Smith's day the portion of life called "the market" occupied a very small part of physical and social space. The habitat seemed to have an infinite supply of resources, and an infinite capacity to absorb such wastes as the industry of the day might dump. The social structure seemed so firmly anchored in history that there was little thought that a growing market could set it adrift.

During this century, however, those assumptions have become increasingly untenable. It is not accidental that both the habitat and the social structure have suffered severe erosion in recent decades; these are precisely the realms that eighteenth- and nineteenth-century assumptions precluded from the reckoning of national well-being--in capitalist and socialist economies alike. This erosion has been mainly invisible in terms of economic policy because our index of progress ignores it; as a result, the nation's policies have made it worse. To understand how the national accounts became trapped in the assumptions of a bygone era, it is useful to study the era in which the current form of economic accounting was wrought.

In 1931 a group of government and private experts were summoned to a congressional hearing to answer basic questions about the economy. It turned out they couldn't: the most recent data were for 1929, and they were rudimentary at that. In 1932, the last year of the Hoover Administration, the Senate asked the Commerce Department to prepare comprehensive estimates of the national income. Soon after, the department set a young economist by the name of Simon Kuznets to the task of developing a uniform set of national accounts. These became the prototype for what we now call the GDP.

As the thirties wore on, a new kind of economic-policy thinking started to take hold among some New Dealers. In their view the role of the federal government was not to coordinate industry or to prevent industrial concentrations, as the New Deal had initially done. Rather, the government should serve as a kind of financial carburetor to keep a rich mixture of spending power going into the engine, through deficits if necessary.

This theory is generally attributed to John Maynard Keynes, of course, but numerous New Dealers had earlier approximated it in an instinctive and practical way. Since Keynesian management worked through flows of money rather than through bureaucratized programs, the new national accounts were essential to it. The Nobel Prize-winner Robert Solow, of MIT, has called Kuznets's work the "anatomy" for Keynes's "physiology."

The two formally came together during the Second World War, and in the process the GNP became the primary scorecard for the nation's economic policy. The degree to which the GNP evolved as a war-planning tool is hard to exaggerate. Keynes himself played a central role in Britain's Treasury during both world wars. At the start of the second he co-authored a famous paper called "The National Income and Expenditure of the United Kingdom, and How to Pay for the War," which provided much conceptual groundwork for the GDP of today.

In the United States the Manhattan Project got much more glory. But as a technical achievement the development of the GNP accounts was no less important. The accounts enabled the nation to locate unused capacity, and to exceed by far the production levels that conventional opinion thought possible. To their great surprise, American investigators learned after the war that Hitler had set much lower production targets, partly for lack of sophisticated national accounts.

Having helped win the war, the Keynesians were giddy

with confidence. The specter of the Depression still haunted the United States; but these economists thought they had found the keys to the economic kingdom. With proper fiscal management and detailed knowledge of the GNP, they could master the dreaded "business cycle" and ensure prosperity indefinitely. When John Kenneth Galbraith joined the staff of Fortune magazine, his first project was to prepare a blueprint for America's transition to a postwar economy. The article was based on projections from the GNP accounts. "One good reason for expecting prosperity after the war is the fact that we can lay down its specifications," the article said. "For this we can thank a little-observed but spectacular improvement in the statistical measures of the current output of the U.S. plant."

The Employment Act of 1946 turned the GNP and the theory it embodied into official policy. It established a Council of Economic Advisers as "the high priests of economic management," as Allan J. Lichtman, a professor of history at the American University, has recently put it, and the GNP as their catechism. The production frenzy that had pulled the nation out of the Depression and through the war was now the model for the peace as well.

These developments set the course for economic policy and reportage for the next fifty years. The ironies have been many. If it is odd that liberal Democrats would turn the principles of a war economy into the permanent template for government, it is no less so that Republicans would latch fervently onto a measure of well-being that was basically a tool of central government planning.

There have been a number of consequences that few saw clearly at the time. One was that economists became the ultimate authorities on American public policy. Before the war, economists were rarely quoted in news stories except in some official capacity. Now their opinions were sought and cited as canonical truth. Moreover, as the party that nurtured these economists, the Democrats became adherents of technocratic top down management that purported to act for the people, even if in ways beyond their ken.

But the biggest change was in who "the people" now were. Because the Keynesian approach saw consumption as the drive train of prosperity, Washington collectively looked at the public in those terms as well. They were no longer primarily farmers, workers, businesspeople--that is, producers. Rather, they were consumers, whose spending was a solemn national duty for the purpose of warding off the return of the dreaded Depression. Our young men had

marched off to war; now Americans were marching off to the malls that eventually covered the land.

In this atmosphere the GNP, the measure and means of policy, rapidly became an end of policy in itself. The nation's social cohesion and natural habitat, which the GNP excluded, were taken for granted. Each week the host of General Electric Theater, Ronald Reagan, declared to the nation that "progress is our most important product." Products were progress, and therefore the GNP was progress too.

### **The GDP Today: How Down Becomes Up**

If the chief of your local police department were to announce today that "activity" on the city streets had increased by 15 percent, people would not be impressed, reporters least of all. They would demand specifics. Exactly what increased? Tree planting or burglaries? Volunteerism or muggings? Car wrecks or neighborly acts of kindness?

The mere quantity of activity, taken alone, says virtually nothing about whether life on the streets is getting better or worse. The economy is the same way. "Less" or "more" means very little unless you know of what. Yet somehow the GDP manages to induce a kind of collective stupor in which such basic questions rarely get asked.

By itself the GDP tells very little. Simply a measure of total output (the dollar value of finished goods and services), it assumes that everything produced is by definition "goods." It does not distinguish between costs and benefits, between productive and destructive activities, or between sustainable and unsustainable ones. The nation's central measure of well being works like a calculating machine that adds but cannot subtract. It treats everything that happens in the market as a gain for humanity, while ignoring everything that happens outside the realm of monetized exchange, regardless of the importance to well-being.

By the curious standard of the GDP, the nation's economic hero is a terminal cancer patient who is going through a costly divorce. The happiest event is an earthquake or a hurricane. The most desirable habitat is a multibillion-dollar Superfund site. All these add to the GDP, because they cause money to change hands. It is as if a business kept a balance sheet by merely adding up all "transactions," without distinguishing between income and expenses, or between assets and liabilities.



The perversity of the GDP affects virtually all parts of society. In 1993 William J. Bennett, who had been the Secretary of Education in the Reagan Administration, produced a study of social decline. He called it "The Index of Leading Cultural Indicators," a deliberate counterpoint to the Commerce Department's similarly named regular economic report. His objective was to detail the social erosion that has continued even as the nation's economic indicators have gone up.

The strange fact that jumps out from Bennett's grim inventory of crime, divorce, mass-media addiction, and the rest is that much of it actually adds to the GDP. Growth can be social decline by another name. Divorce, for example, adds a small fortune in lawyers' bills, the need for second households, transportation and counseling for kids, and so on. Divorce lawyers alone take in probably several billion dollars a year, and possibly a good deal more. Divorce also provides a major boost for the real-estate industry. "Unfortunately, divorce is a big part of our business. It means one [home] to sell and sometimes two to buy," a realtor in suburban Chicago told the Chicago Tribune. Similarly, crime has given rise to a burgeoning crime-prevention and security industry with revenues of more than \$65 billion a year. The car-locking device called The Club adds some \$100 million a year to the GDP all by itself, without counting knock-offs. Even a gruesome event like the Oklahoma City bombing becomes an economic uptick by the strange reckonings of the GDP. "Analysts expect the share prices [of firms making anti-crime equipment] to gain during the next several months," The Wall Street Journal reported a short time after the bombing, "as safety concerns translate into more contracts."

Bennett cited the chilling statistics that teenagers spend on average some three hours a day watching television, and about five minutes a day alone with their fathers. Yet when kids are talking with their parents, they aren't adding to the GDP. In contrast, MTV helps turn them into ardent, GDP-enhancing consumers. Even those unwed teenage mothers are bringing new little consumers into the world (where they will quickly join the "kiddie market" and after that the "teen market," which together influence more than \$200 billion in GDP). So while social conservatives like Bennett are rightly deploring the nation's social decline, their free-marketeer counterparts are looking at the same phenomena through the lens of the GDP and breaking out the champagne.

Something similar happens with the natural habitat. The more the nation depletes its natural resources, the more

the GDP increases. This violates basic accounting principles, in that it portrays the depletion of capital as current income. No businessperson would make such a fundamental error. When a small oil company drains an oil well in Texas, it gets a generous depletion allowance on its taxes, in recognition of the loss. Yet that very same drainage shows up as a gain to the nation in the GDP. When the United States fishes its cod populations down to remnants, this appears on the national books as an economic boom--until the fisheries collapse. As the former World Bank economist Herman Daly puts it, the current national accounting system treats the earth as a business in liquidation.

Add pollution to the balance sheet and we appear to be doing even better. In fact, pollution shows up twice as a gain: once when the chemical factory, say, produces it as a by-product, and again when the nation spends billions of dollars to clean up the toxic Superfund site that results. Furthermore, the extra costs that come as a consequence of that environmental depletion and degradation--such as medical bills arising from dirty air--also show up as growth in the GDP.

This kind of accounting feeds the notion that conserving resources and protecting the natural habitat must come at the expense of the economy, because the result can be a lower GDP. That is a lot like saying that a reserve for capital depreciation must come at the expense of the business. On the contrary, a capital reserve is essential to ensure the future of the business. To ignore that is to confuse mere borrowing from the future with actual profit. Resource conservation works the same way, but the perverse accounting of the GDP hides this basic fact.

No less important is the way the GDP ignores the contribution of the social realm--that is, the economic role of households and communities. This is where much of the nation's most important work gets done, from caring for children and older people to volunteer work in its many forms. It is the nation's social glue. Yet because no money changes hands in this realm, it is invisible to conventional economics. The GDP doesn't count it at all--which means that the more our families and communities decline and a monetized service sector takes their place, the more the GDP goes up and the economic pundits cheer.

Parenting becomes child care, visits on the porch become psychiatry and VCRs, the watchful eyes of neighbors become alarm systems and police officers, the kitchen table becomes McDonald's--up and down the line, the

things people used to do for and with one another turn into things they have to buy. Day care adds more than \$4 billion to the GDP; VCRs and kindred entertainment gear add almost \$60 billion. Politicians generally see this decay through a well-worn ideological lens: conservatives root for the market, liberals for the government. But in fact these two "sectors" are, in this respect at least, merely different sides of the same coin: both government and the private market grow by cannibalizing the family and community realms that ultimately nurture and sustain us.

These are just the more obvious problems. There are others, no less severe. The GDP totally ignores the distribution of income, for example, so that enormous gains at the top--as were made during the 1980s--appear as new bounty for all. It makes no distinction between the person in the secure high-tech job and the "downsized" white-collar worker who has to work two jobs at lower pay. The GDP treats leisure time and time with family the way it treats air and water: as having no value at all. When the need for a second job cuts the time available for family or community, the GDP records this loss as an economic gain.

Then there's the question of addictive consumption. Free-market fundamentalists are inclined to attack critics of the GDP as "elitists." People buy things because they want them, they say, and who knows better than the people themselves what adds to well-being? It makes a good one liner. But is the truth really so simple? Some 40 percent of the nation's drinking exceeds the level of "moderation," defined as two drinks a day. Credit-card abuse has become so pervasive that local chapters of Debtors Anonymous hold forty-five meetings a week in the San Francisco Bay area alone. Close to 50 percent of Americans consider themselves overweight. When one considers the \$32 billion diet industry, the GDP becomes truly bizarre. It counts the food that people wish they didn't eat, and then the billions they spend to lose the added pounds that result. The coronary bypass patient becomes almost a metaphor for the nation's measure of progress: shovel in the fat, pay the consequences, add the two together, and the economy grows some more.

So, too, the O. J. Simpson trial. When The Wall Street Journal added up the Simpson legal team (\$20,000 a day), network-news expenses, O. J. statuettes, and the rest, it got a total of about \$200 million in new GDP, for which politicians will be taking credit in 1996. "GDP of O.J. Trial Outruns the Total of, Say, Grenada," the Journal's headline writer proclaimed. One begins to understand why politicians prefer to talk about growth rather than what it

actually consists of, and why Prozac alone adds more than \$1.2 billion to the GDP, as people try to feel a little better amid all this progress.

### **The Politics of Permanence**

Simon Kuznets had deep reservations about the national accounts he helped to create. In his very first report to Congress, in 1934, he tried to warn the nation of the limitations of the new system. "The welfare of a nation," the report concluded, can "scarcely be inferred from a measurement of national income as defined above."

But the GNP proceeded to acquire totemic stature, and Kuznets's concerns grew deeper. He rejected the a priori conceptual schemes that govern most economic thought. As an economy grows, he said, the concept of what it includes must grow as well. Economists must seek to measure more and different things. By 1962 Kuznets was writing in *The New Republic* that the national accounting needed to be fundamentally rethought: "Distinctions must be kept in mind between quantity and quality of growth, between its costs and return, and between the short and the long run," he wrote. "Goals for 'more' growth should specify more growth of what and for what" (emphasis added).

To most of us, that would seem to be only common sense. If the government is going to promote something, surely the voters should know what that something is. But in the view of most economists, Kuznets was proposing a pipe bomb in the basement. Once you start asking "what" as well as "how much"--that is, about quality instead of just quantity--the premise of the national accounts as an indicator of progress begins to disintegrate, and along with it much of the conventional economic reasoning on which those accounts are based.

Unsurprisingly, the profession did not seize eagerly upon Kuznets's views. Though he won a Nobel Prize in 1971, many economists dismissed him as a kind of glorified statistician. Most are aware of at least some of the basic shortcomings of the GDP. But rather than face those shortcomings squarely, they have either shrugged their shoulders or sought to minimize the implications for their underlying models. In his ubiquitous economics text Paul Samuelson and his co-author William Nordhaus devote a few pages to possible revisions to the GDP to reflect environmental and other concerns. But this is more in the spirit of a technical adjustment than a questioning of the underlying premise.

The effects of the GDP fixation can be seen perhaps most vividly in what are called "developing nations" (a term that is itself defined mainly in terms of GDP)--specifically in the policies of the World Bank, which is a kind of development czar for the nations of the South. Decades ago Kuznets tried to point out the absurdity of using such a measure to assess the economies of less-developed nations, where much production takes place in the household economy and is therefore beyond the ken of the GNP. A development strategy based on raising the GNP might undermine this household economy and therefore diminish the well-being of the nation's people, while devastating the habitat to boot.

In 1989 Barber Conable, then the president of the World Bank, acknowledged the problem with respect to environmental issues. "Current calculations ignore the degradation of the natural-resource base and view the sales of nonrenewable resources entirely as income," he wrote. "A better way must be found." Yet on the floors beneath him the bank's economists continued churning out loan strategies aimed at boosting GDP. One recent World Bank publication reaffirmed it as the "main criterion for classifying economies."

And a wrongheaded one. In a groundbreaking study of Indonesia in 1989, the World Resources Institute, of Washington, D.C., explored the implications for natural resources. Since the 1970s Indonesia had been a success story for the conventional development school, achieving an exceptional growth rate of seven percent a year. But such an amphetamine pace cannot be sustained forever. Indonesia is selling off precious nonrenewable mineral wealth. Clear-cutting its forests and exhausting its topsoil with intensive farming, it is in effect robbing the future to finance the current boom. After adding in these and other factors, the institute found that the country's real, sustainable growth rate was only about half the official rate. And that wasn't counting the broader spectrum of environmental and social costs, which would have brought the growth rate down even more.

Here was another warning for those disposed to heed it. Yet the international development establishment did nothing of the sort. In fact, what is being measured has grown more partisan than ever. Specifically, in 1991 the GNP was turned into the GDP--a quiet change that had very large implications.

Under the old measure, the gross national product, the earnings of a multinational firm were attributed to the country where the firm was owned--and where the profits

would eventually return. Under the gross domestic product, however, the profits are attributed to the country where the factory or mine is located, even though they won't stay there. This accounting shift has turned many struggling nations into statistical boomtowns, while aiding the push for a global economy. Conveniently, it has hidden a basic fact: the nations of the North are walking off with the South's resources, and calling it a gain for the South.

The more basic defects of the GDP have not gone unnoticed among the nations of the world. In France a parliamentary report has called for new indicators of progress; the Treasury of Australia has done so as well. Both the UN and the European Parliament have taken up the issue, and there are ripples even at the World Bank.

But in the United States change will not come easily. The quarterly release of the GDP figures has become a Wall Street ritual and metronome for the national media, setting the tempo and story line for economic reportage. For the media in particular, the GDP serves deep institutional cravings, combining the appearance of empirical certitude and expert authority with a ready-made story line. It also serves the industries that thrive on the kind of policies it reinforces; those inclined to deplete and pollute are especially pleased with an accounting system that portrays these acts as economic progress. This came to light clearly last year when the Clinton Administration proposed, sensibly, that resource depletion be subtracted from GDP (albeit only in a footnote) instead of added to it.

The idea had been kicking around the Commerce Department for years, and the Administration's actual proposal was modest in the extreme. Still, at a House Appropriations Committee hearing in April of 1994 two representatives from coal states pounced on the department staff. After a series of jabberwocky exchanges that illustrated why members of Congress usually leave technical issues to their staffs, Congressman Alan Mollohan, of West Virginia, finally got to the heart of the matter. If the national accounts were to include the depletion of coal reserves and the effects of air pollution (which would be added eventually), he said, "somebody is going to say . . . that the coal industry isn't contributing anything to the country." Better to keep depletion and pollution hidden under the accounting rug called "growth." The committee demanded an expensive outside review, effectively delaying the project. In the Republican Congress its fate is by no means assured.

## A Genuine Progress Indicator

Economists have couched their resistance to new indicators mainly in philosophical terms. A measure of national progress must be scientific and value-free, they say. Any attempt to assess how the economy actually affects people would involve too many assumptions and imputations, too many value judgments regarding what to include. Better to stay on the supposed terra firma of the GDP, which for all its faults has acquired an aura of hardheaded empirical science.

Aura notwithstanding, the current GDP is far from value-free. To leave social and environmental costs out of the economic reckoning does not avoid value judgments. On the contrary, it makes the enormous value judgment that such things as family breakdown and crime, the destruction of farmland and entire species, underemployment and the loss of free time, count for nothing in the economic balance. The fact is, the GDP already does put an arbitrary value on such factors--a big zero.

Conventional economic thinking follows a simple premise in this regard: As Paul Samuelson puts it in his textbook, "economics focuses on concepts that can actually be measured." If something is hard to count, in other words, then it doesn't count. Of course, there will never be a way to assign an exact dollar value to our family and community life, our oceans and open spaces. This doesn't mean they don't have value. It means only that we don't have a way to register their value in a form comparable to market prices. Given that, the challenge is simply to start to develop values that are more reasonable than zero; it is to stop ignoring totally that which is crucial to the nation's economic and social health. An approximation of social and habitat costs would be less distorting and perverse than the GDP is now; a conservative estimate of, say, the costs of family breakdown and crime would produce a more accurate picture of economic progress than does ignoring such costs entirely.

We have a rough sketch of such a picture. On a limited budget, using data that the federal government and other institutions already collect, we have developed estimates for the kinds of factors that the economic establishment ignores. The result is a new index that gets much closer--not all the way, but closer--to the economy that people experience. We call it the "genuine progress indicator" (GPI), and it provides substance to the gap between the economy limned by the commentators and the one that has brought increasing apprehension and pain to so many

others. It also begins to suggest the kinds of measurements that the federal government, with its enormous statistical resources, could construct.

The GPI includes more than twenty aspects of our economic lives which the GDP ignores. We based this list on available data and on common sense. A family does not count every dollar spent as a step forward. Rather, it tries to sort out the different kinds of expenditures--and that's basically what we did with the national accounts. We started with the same consumption data that the GDP is based on, but revised them in a number of ways. We adjusted for some factors (such as income distribution), added certain others (such as the value of housework and community work), and subtracted yet others (such as pollution costs and the like). The result is a balance sheet for the nation that starts to distinguish between the costs and benefits of "growth."

Here are some of the factors we included:

The household and volunteer economy. Much of the nation's most important work--and the work that affects our well-being most directly--gets done in family and community settings. Taking care of children and the elderly, cleaning and repairing, contributing to neighborhood groups--all of these are totally ignored in the GDP when no money changes hands. To overcome this problem, we included, among other things, the value of household work figured at the approximate rate a family would have to pay someone else to do it.

Crime. The GDP counts as progress the money people spend deterring crime and repairing the damage it causes. However, most people would probably count those costs as necessary defenses against social decline, and that's how the GPI counts them too. We included hospital bills and property losses arising from crime and the locks and electronic devices that people buy to prevent it.

Other defensive expenditures. Crime-related costs are just one kind of expenditure that seeks to repair past or present damage, as opposed to making people better off. We also incorporated the money spent on repairs after auto accidents and what households pay for water filters, air purification equipment, and the like to defend against the degradation of their physical environment.

The distribution of income. A rising tide of GDP doesn't necessarily lift all boats--not if the growth of income is mainly at the top. It was in the 1980s: the top one percent of households enjoyed a growth in income of more than 60 percent, while the bottom 40 percent of households



saw their incomes drop. To take account of this uneven tide, we adjusted the GPI for the extent to which the whole population actually shared in any increase.

Resource depletion and degradation of the habitat. As the nation uses up oil and other minerals, this should appear as a cost on the national accounts, just as it does on the books of a private business; yet the GDP treats it as a gain. We reversed that in the GPI. Similarly, the pollution of our air and water represents the using up of nature's capacity to absorb humanity's waste. Therefore we included, among other things, the damage to human health, agriculture, and buildings from air and water pollution, along with such recreational losses as beaches fouled by sewage or medical debris.

Loss of leisure. If people have to work two jobs or longer hours just to stay even, then they aren't really staying even. They are falling behind, losing time to spend with their families, to further their education, or whatever. The GDP assumes that such time is worth nothing. We included it at an average wage rate.

To include such factors is to begin to construct a picture of the economy that most Americans experience. It clarifies greatly the "paradox" that permeated the reportage during last year's congressional campaigns. The GDP would tell us that life has gotten progressively better since the early 1950s--that young adults today are entering a better economic world than their parents did. GDP per American has more than doubled over that time. The GPI shows a very different picture: an upward curve from the early fifties until about 1970, but a gradual decline of roughly 45 percent since then. This strongly suggests that the costs of increased economic activity--at least the kind we are locked into now --have begun to outweigh the benefits, resulting in growth that is actually uneconomic.

Specifically, the GPI reveals that much of what we now call growth or GDP is really just one of three things in disguise: fixing blunders and social decay from the past, borrowing resources from the future, or shifting functions from the traditional realm of household and community to the realm of the monetized economy.

Many readers might think of additions to the list of factors that the GPI ought to include--thus corroborating both the underlying concept and the conservative nature of our calculations. We left out, for example, the phenomenon of addictive consumption, which is spending that consumers themselves say they wish they didn't do. We also left out the destruction of species, since there is not a satisfactory

way to reckon such loss in economic terms.

The GPI has been several years in the making, and we will continue to refine it. But already it appears to have touched a nerve in the economics profession and beyond. More than 400 economists and a growing number of opinion leaders, including Robert Eisner, the former president of the American Economic Association, and Alvin Toffler, Newt Gingrich's favorite futurist, have endorsed it as an important step toward the new kinds of indicators that are urgently needed. Research institutes in Germany and the United Kingdom have sought to replicate it for their countries. Economic measurement is due for a radical change, and we hope that the GPI will speed up the process. But measurement is a means, not an end. The more important question is how an honest set of economic books would change the nation's economic debate and force our leaders out of their Potemkin village.

### **From Scorecards to Policies**

Imagine Peter Jennings on the network news tonight reciting the latest Commerce Department figures with his polished gravity. Instead of the GDP, however, he is reporting something more like the GPI. The nation's output increased, he says, but parents worked longer hours and so had less time with their kids. Consumer spending was "up sharply," but much of the difference went for increased medical costs and repairing the rubble left by hurricanes and floods. Utility receipts were up, but resources declined, meaning that part of today's prosperity was taken from our grandchildren. And so on down the line.

Reports of that kind would have a radical effect. They would break through the hermetic economy portrayed by economists and Wall Street analysts which dominates the news today--the abstractions that serve as a conceptual phalanx against reality. Suddenly reporters and politicians alike would have to confront the economy that people actually experience. There would be some genuine accountability in Washington, a better sense of cause and effect between what Congress does and what happens in our lives. New indicators would blast away the obfuscatory polemics of growth--and the devious politics that goes along with it. Politicians could no longer get away with glib assurances that the nation can grow its way out of family breakdown and environmental decay, inequity and debt, when in many cases the nation has been growing its way into them.

Such assurances have become a kind of political perpetual-motion machine. Newt Gingrich rhapsodizes about the entertainment economy and the 500 cable channels it will bring to the American living room. (When Gingrich and like-minded politicians extol "growth," entertainment is one of the things they are talking about; since 1991 it grew twice as fast as consumer spending generally.) But when these channels flood the family living room with sex and violence, and kids spend more time watching TV than they do with their parents or their homework, he blames "McGovernik liberals" for the breakdown in traditional family values. At the same time, he's only too happy to count the new tax revenues that arise from that family breakdown toward balancing the federal budget.

Honest accounting would blow the whistle on these political games. It would also bring a new clarity and rigor to any number of policy debates- those over trade agreements being a prime example. In the recent past these debates have been framed largely in terms of the GDP. The General Agreement on Tariffs and Trade means "percentage points . . . of U.S. GDP growth," exclaimed Bill Frenzel, a former congressman from Minnesota and a congressional representative to GATT negotiations. "It means trillions of dollars in increased world trade." This kind of talk was typical. In fact the increase means very little--only that more things will pass back and forth between nations. Will families and communities suffer continuing disruption? Will the increased traffic back and forth simply burn up more energy, the price of which is kept artificially low by tax subsidies and the like? Will America lose a measure of control over decisions that affect the lives of its own citizens?

There were efforts to raise such issues in the trade debates. But the polemical playing field was tilted sharply against them by the GDP. The result was a perpetuation of free-trade dogma that is based on the economy of 200 years ago. Better accounting would not in itself dictate a different conclusion. But at least it would level the field, and include many factors that now get left out. It would, for example, reflect some of the numerous benefits of local production that don't show up in the GDP- social stability, job security, energy savings, and the like. Free-trade dogma dismisses such thoughts as primitive and benighted.

Better indicators would also strengthen the role of family and community values in our policy debates. Rarely does anyone point out how the market itself can undermine family values in the name of growth. When regional

shopping centers replace traditional Main Streets, the matrix of community activity is significantly undermined as well. Similarly, when mass media replace the storytelling of parents and grandparents, the GDP goes up while the role of families declines.

If factory jobs migrate to low-wage nations, it means cheaper products and more efficiency. But it also means severe family disruption, and the decline of the informal safety net of churches and union halls that once flourished in factory towns and helped families in need. The government obscures the impact of such policies by in effect keeping two sets of books--a visible one for the market and an invisible one for everything else. New indicators would bring the two together, and better policy just might result.

The effect would perhaps be especially direct on tax policy. The current tax system is deeply perverse, but not for the reasons that economists generally cite. Purveyors of conventional wisdom say that the tax system retards growth, by which they mean GDP. But this makes no distinction at all between muscle and bloat. They want capital-gains tax breaks, but for what? Pop art? Overseas investment funds? They urge taxes on consumption. But what kinds do they mean? Work shoes as well as Guccis? Recycled paper along with that made from ancient forests?

Meanwhile, the left argues for "progressive" taxes based entirely on income, as if income and the activities that produce it were inherently worthy of censure, regardless of what those activities are. Better accounting would define the issue along an entirely different spectrum.

For example, the current system taxes heavily that which should be encouraged--enterprise and human labor. Meanwhile, it taxes lightly or even subsidizes the use of the natural resources that humanity needs to husband and conserve. Employers pay a heavy fine, in the form of Social Security taxes, workers' compensation, and the rest, when they hire somebody. But they get big write-offs when they help to drain the world's natural resources. New accounting would expose this perversity, and point toward a new tax system that defied the stereotyped categories of left and right.

To put it simply, the nation would cut--or if possible eliminate--taxes on work and enterprise and replace them with increased taxes on the use of natural resources. Such a system would diminish the need for environmental regulation, by building a semblance of environmental

accounting right into the price system. Prices would include environmental and social costs. This approach would also be a spur to enterprise and employment. With reduced income taxes, the entire economy would become a kind of enterprise zone, and the nation's entrepreneurial energies would be deployed much more toward solving environmental and social problems than toward creating them. Moreover, by doing away with the corporate income tax, we could get rid of the whole loophole culture that corrupts the nation's politics and is a primary source of corporate subsidy and waste.

Closely related is the issue of cost-benefit analysis, which was one of the hot topics in Washington this year. Republicans argue, sensibly, that environmental and other regulations should bring benefits commensurate with the costs involved. But that just begs the crucial question: What goes into the accounting? If the GDP defines the framework, then cost-benefit analysis becomes a made-in-heaven deal for polluters and those who cause social disruption. If nothing counts other than what is conventionally counted, then tangible increases in production will win out over the less easily quantified--but no less real--harm to the natural and social spheres. To broaden the reckoning, however, could produce results quite the opposite of what the current advocates of cost-benefit analysis intend.

### **The New Politics of Progress**

It has become almost obligatory in a context such as this to invoke the concept of a "paradigm shift," to use Thomas Kuhn's much-cited formulation, laid out in *The Structure of Scientific Revolution*. But there is a side to this that is generally overlooked--namely, the central role of generational divides. Kuhn quotes the physicist Max Planck: "A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die."

One would wish for a more ceremonious process. But no field has grown more tightly shut than economics, whose basic orthodoxies have persisted for at least a hundred years. Unless history stops cold, these, too, will eventually yield, and the time is now propitious. The generation that developed the GDP, and for which the GDP distilled an entire world view, is now mainly retired. The students and disciples of that generation are well into their middle years, rumbling along on mental capital from long ago. For the generation that is replacing them, the defining traumas were not the Depression and the Second World

War but rather the material glut and environmental and social disintegration of which many in the old guard served as unwitting boosters and engineers.

To be sure, the old order does not lack acolytes. But for a growing number of economists, the conceptual tools and measurements of the neoclassical model--Keynesian twists included--are no longer adequate. These economists are demanding that their profession start to take account of the larger economy in which the market is grounded--the natural and social spheres, which they have in the past dismissed as the netherworlds of externality. In a survey in the 1980s of economists at fifty major universities two thirds acknowledged a sense of "lost moorings" in the profession.

In recent decades this kind of critique has been associated mainly with the ecological camp. Herman Daly, Hazel Henderson, Kenneth Boulding, and other writers have pointed out that in a world of finite physical resources the possibility of endless material expansion is not something we should count on. What is new today is that a similar argument is coming from certain quarters on the right: specifically that the pursuit of GDP has been undermining traditional values and social cohesion, much as it has been destroying the natural habitat.

Americans are conditioned to see ecology and social conservatism as occupying opposite ends of the political spectrum. But that is largely an optical illusion, reinforced by an antiquated national accounting system. The fact is that adherents at both ends deplore the way the pursuit of GDP can undermine the realm of their concern. Much as this pursuit turns ancient forests into lumber and beaches into sewers, so it turns families into nodes of consumption and the living room into a marketing free-fire zone. Both camps speak from the standpoint of values against the moral relativism and opportunism of the market. "If you read the New Testament or the Pope's encyclical, it's no cheers for socialism and one and a half or two for capitalism," William Bennett, who was Reagan's Secretary of Education, observes. "Socialism treats people as a cog in the machine of the state; capitalism tends to treat people as commodities."

This strain of conservatism, partly rooted in traditional Christian teachings, was largely dormant during the Cold War, when the greater enemy communism predominated. But with the fall of the Soviet bloc it has reawakened, and the result has been a widening gap on the right between social conservatives and libertarian free-marketeters. This gap was easily overlooked in the Republican triumph last

November, but it may well become as important as the one between the Republicans and the Democrats they replaced.

It can be seen, for example, in the diverging views of that archetypal Republican era, the Reagan eighties. Martin Anderson, who was Reagan's domestic-policy adviser, gave the rapturous libertarian view in his book *Revolution* (1988). "It was the greatest economic expansion in history," Anderson wrote. "Wealth poured from the factories of the United States, and Americans got richer and richer."

But does richer mean better--even assuming that all Americans shared in this bounty, which they didn't? For libertarians, as for many Keynesian liberals, the question isn't relevant. For social conservatives, however, it is the question. Bennett does not disparage the economic achievements of the Reagan years. Nor does he dispute that more family income can mean better schooling, medical care, and the like. But recently he has been calling attention to the social decay that has continued despite (and often in the name of) economic growth. "Would you rather have kids raised by rich people with lousy values, or by good people who just don't have much money?" he asks. "A lot of us would say we want the values right."

What the right calls "family values" is one arena in which the latent conflict between market and nonmarket values is coming out into the open. In a long article in *The Washington Post* last November, Edward Luttwak, of the Center for Strategic and International Studies, a conservative think tank in Washington, D.C., pointed out that much family disruption today arises from the "creative destruction" of the market that free-market economists adore. The failure to acknowledge this, Luttwak wrote, is "the blatant contradiction at the very core of what has become mainstream Republican ideology."

In an interview Luttwak argued that people need stability more than they need much of the new stuff that makes the GDP go up. Yet economists talk about stability "in entirely negative terms," he said. Conservation becomes a dirty word. One would think that conservatives would be the first to point this out; stability, after all, is what families and communities are for. But the political right is muzzled on these issues, Luttwak said, by the economic interests of its major funders. "Any conservative who wishes to conserve will not be funded."

This split has a distinct similarity to the tension that arose in the Democratic Party in the seventies between environmentalists and the growth-boosting Keynesian mainstream. It could betoken the beginning of a new politics in which the popular currents represented by social conservatives and environmentalists increasingly find common cause. Some writers have made the connection already. For example, Fred Charles Ikle, who was an undersecretary of defense in the Reagan Administration, wrote an article for the *National Review* in which he criticized the "growth utopians" of the right. "Citizens who fear for our vanishing patrimony in nature," Ikle wrote, "drink from a wellspring of emotions that nourishes the most enduring conservative convictions." (He also tweaked the magazine's right-wing readers by pointing out that economic growth almost invariably leads to bigger government.)

Just a few years ago a confluence of the environmental and social conservative impulses would have seemed unlikely. But the political seas are changing rapidly. The coalition that came together to oppose NAFTA and GATT--environmentalists and anti-corporate populists like Ralph Nader on the one hand, and social conservatives like Pat Buchanan on the other--seemed an oddity to most pundits. But something similar happened when the Walt Disney Company proposed a new theme park near the Civil War battlefield in Manassas, Virginia. Buchanan and numerous other tradition-minded conservatives joined environmentalists in blasting the proposal. In his syndicated newspaper column Buchanan demanded, "Conservatives who worship at the altar of an endlessly rising GNP should tell us: What is it they any longer wish to conserve?"

The two camps have converged in opposing the so-called "takings" bills, which would require the taxpayers to compensate property owners for restrictions on the use of their property. The Reverend Donald E. Wildemon, the president of the American Family Association, in Tupelo, Mississippi, has called such a proposal in his state the "porn owners' relief measure," because it could restrict the ability of local governments to control such things as topless bars.

Environmentalists of course worry about the implications for the protection of wetlands, open space, and the like. The two camps agree that "growth" is not an end in itself but must serve larger values that are not economic in the usual sense.

We may be witnessing the opening battles in a new kind



of politics that will raise basic questions about growth-- questions that defy the conventional left-right divide. Where the old politics was largely concerned with the role of government--with the relation between public and private sectors--the emerging one will be more concerned with such issues as central versus local, market culture versus family and community culture, material accretion versus quality and values. The new politics will not be anti-growth, because to be categorically against growth is as nonsensical as to be categorically for it. Rather, it will begin with Luttwak's sane observation that when your goal is simply to increase GDP, then "what you increase isn't necessarily good." It will insist that growth--and economics generally--must be a means to an end, and not an end in itself.

This is not to suggest that such a new alliance is around the corner. But although the differences between the social-conservative and environmentalist camps are still large, they are probably etched more sharply among leaders in Washington than in the nation as a whole. These groups are converging on one crucial issue--namely, the ends of economic life. In their different ways they are expressing the feeling, widespread among the public, that the pronouncements from economic experts are fundamentally out of sync with the experience of their own lives; that economics must be about more than just the production and consumption of stuff; and that we need larger goals and better ways to measure our achievements as a nation.

Of course, this instinct could play out in many ways. But at least one thing is clear: boosting the GDP is no longer a sufficient aim for a great nation, nor one that America can continue to endure.

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