Beyond Economic Growth: How should we measure the economy?

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Dominance of Economic Growth and GDP

- For over 70 years economic growth has been dominant goal of economic policy, and rates of change of GDP the dominant measure of an economy's success

- In the earlier part of this period, rising GDP signified rising household incomes, rising average living standards, rising employment, falling poverty rates and rising tax revenue

- Up to 1980s, in most OECD countries, economic growth was accompanied by falling income inequality

Calling Economic Growth and GDP into Question

- GDP growth is now widely associated with rising inequalities in income and wealth

- GDP growth is no longer correlated with improvements in well being

- GDP growth is leading to severe environmental degradation and climate emergency

- A diverse group of economists has called for a 'new economic narrative' that is 'beyond growth' see OECD (2020) *Beyond Growth:Towards a New Economic Approach*

- This requires a wider set of primary economic indicators- GDP has to be dethroned as the major focus of attention for policy makers, politicians and journalists

Weaknesses of GDP

- GDP is total market value of all final goods and services produced in a country in a year, as defined in the UN System of National Accounts
- It was designed more than 70 years ago to measure the ups and downs of market economies but has been more widely understood as an indicator of economic progress
- Many of the weaknesses of GDP are well understood by economists:
- it conceals inequalities in the distribution of the income
- it does not take account of environmental degradation and depletion of natural resources
- it is not a wellbeing indicator
- Less attention has been paid by economists to the exclusion of care and domestic services produced on an unpaid basis in households, so will consider this in more detail

Measuring Unpaid Care and Domestic Work via Time Use Surveys

- Women's movements have argued for measuring unpaid care and domestic work since the 1990s

- The UN Statistical Office produced a guide to measuring unpaid work though Time Use Surveys in 2004

- A TUS aims to gather data on how individuals allocate their time over a specific period (usually 24 hours or a week), covering all activities, including self-care and leisure as well as unpaid and paid work

- Activities that constitute work are identified using the Third Party Criterion: any activity that one could, at least in theory, pay someone else to do- using this criterion, though getting dressed, sleeping, socializing and studying take up time and energy, they are not considered work

Monetary Valuation of Unpaid Care and Domestic Work

- Three methods of valuing unpaid labour inputs may be used :

- *average earnings approach* to approximate the earnings foregone by the person doing the unpaid work;

- *generalist approach* assigns the mean wages of workers performing similar work to the unpaid work. For housework, the workers concerned would include paid domestic workers. For child care work it would include workers in preschools;

- *specialist approach* assigns different wages to different activities. In each case, the paid worker whose functions and circumstances most closely match the unpaid work concerned is chosen. For example, for housework the cooking activities would be assigned the wage of a paid chef or cook, the cleaning activities those of a paid cleaner, and so on.

OFFICIAL MEASUREMENT OF UNPAID WORK IN UK

- Office of National Statistics collects time use data that includes both paid and unpaid work

- It puts a monetary value on unpaid work, using a mixture of generalist and specialist wages, and creates a Satellite Account

- In 2016, monetary value of unpaid household production, including adult and childcare, household housing services, nutrition, clothing and laundry, transport and volunteering, was equivalent to 63.1% GDP

- Do we want these estimates to be added to GDP? Or do we want to press for much more attention to the economic value of unpaid work using the Satellite Account? Or for the incorporation of unpaid work in an alternative macroeconomic indicator?

Genuine Progress Indicator

- GPI is a composite indicator that incorporates roughly 25 adjustments to personal consumption expenditures, the largest component of GDP

- It weights personal consumption by income inequality,

- It assigns a money value to non-market activities (such as unpaid care)

- and to some social and environmental costs associated with market activity

- All components of GPI are expressed in monetary units and aggregated into a single GPI value, akin to the GDP.

- Not adopted officially, various independent measures of GPI, none for UK, as far as I know

- Next 3 slides give example for USA, drawn from N. Goodwin et al (2014). *Macroeconomics in Context*. M.E. Sharpe, Armonk, NY and London, UK.

Calculating the 2004 Genuine Progress Indicator

Category	Value in Billions of 2000 Dollars
The GPI 's starting point	
Personal consumption in 2004	7,589
Personal consumption adjusted for income distribution	6,318
Additions of Benefits	
Value of housework and parenting	2,542
Value of higher education	828
Value of volunteer work	131
Services of consumer durables	743
Services of highways and streets	112
Subtractions of Costs	
Social costs	
Cost of crime	-34
Loss of leisure time	-402
Cost of underemployment	-177
Cost of commuting	-523
Costs of automobile accidents	-175

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Environmental costs

Cost of household pollution abatement	-21
Cost of water pollution	-120
Cost of air pollution	-40
Cost of noise pollution	-18
Loss of wetlands	-53
Loss of farmland	-264
Loss of primary forests	-51
Resource depletion	-1,761
Carbon dioxide emissions damage	-1,183
Cost of ozone depletion	-479

Other

Net capital investment	389
Net foreign borrowing	-254
Cost of consumer durables	-1,090
The Total: The Genuine Progress Indicator	**4,419**

Figure 6.2: Comparison of GDP and GPI per Capita, United States, 1970-2004
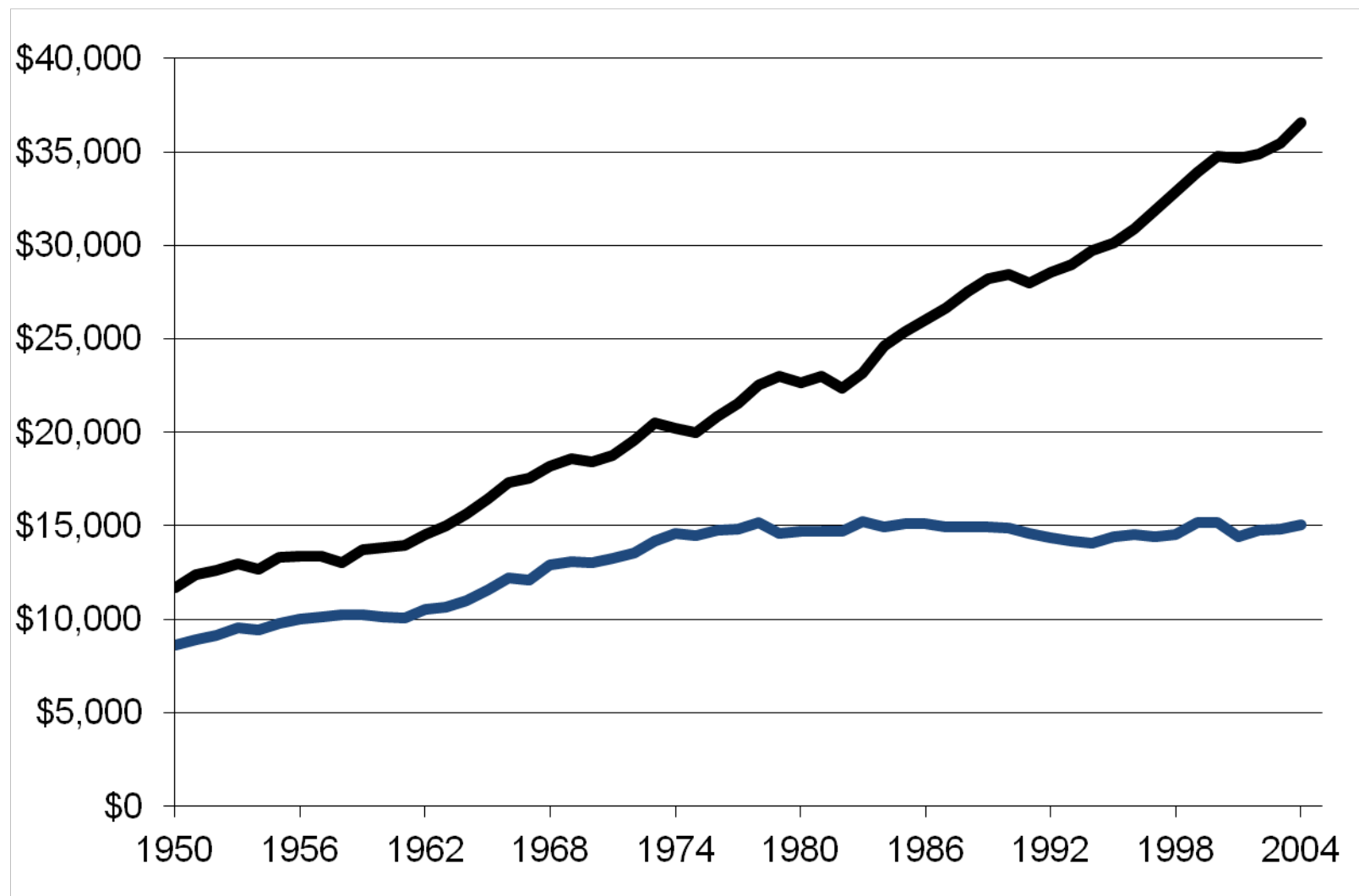
Some Questions About GPI

- Do we want to construct a GPI for UK and/or urge ONS to construct one?
- Many questions about how to put money valuations on the non-market benefits and costs
- Unpaid work (represented by 'value of housework and parenting') seen only as benefit- which it is to those who receive it- costs to those who provide it ignored –e.g. too much unpaid work can lead to ill-health
- Depletion of human capacities ignored- no cost of ill-health included
- An improved GPI could be constructed
- Advantage: one big number to command attention of policy makers, politicians and journalists but does it tell Finance Ministers all they need to know for macroeconomic policy? And will it be widely accepted?
- What about non-monetary indicators, such as well being indicators?

Well Being Dashboards

- OECD's *Better Life Initiative* dashboard includes over 80 indicators, covering current wellbeing outcomes, inequalities, and resources for future wellbeing.

- Much of the data is disaggregated by gender, age, and education, including the gender gap in total hours worked (paid and unpaid work).

- UK Office of National Statistics *Measures of National Wellbeing* covers ten areas, including health, where we live, what we do, and our relationships.

- The measures include both objective data and subjective data. But little of the data is disaggregated by gender, there is no data on care or unpaid work.

- Subjective data has some drawbacks- are people's reports of their wellbeing shaped by their circumstances, including gender norms? ('adaptive preferences')

Some Questions about Wellbeing Dashboards

- Do wellbeing dashboards have too many indicators to capture attention of policy makers, politicians and journalists?

- How many of you have looked at the ONS Measures of National Wellbeing?

- Can/should a Wellbeing Index be created ? How would components be weighted?

- Can lessons be learned from the UNDP Human Development Indexes on problems of weighting, winning acceptance, capturing attention?

Potential Modifications to National Accounts

- Distributional national accounts- data on how any growth in GDP is distributed across sectors (eg polluting vs non-polluting) and in national income across household deciles and social groups (gender, race/ethnicity, region, class)

- Apply discounts to national aggregates to reflect maldistribution to produce pollution adjusted GDP, inequality adjusted GDP etc

- From Gross Accounts to Net Accounts- measure depletion of physical and natural resources and human capacities and deduct from GDP

- Always publish Satellite Accounts showing unpaid work alongside modified GDP measures – requires much more frequent time use surveys

- Any other ideas?