

The San Diego
Union-Tribune.

GDP grades quantity, not quality of economy

10/4/2009

By Dean Calbreath

When New Deal economist Simon Kuznetz formulated a way of measuring the gross national product in 1934, he warned people not to put too much value on the number.

“The welfare of a nation can scarcely be inferred from a measure of national income,” he said in a report to Congress.

But over the past 75 years, the country has increasingly viewed GNP and its successor, GDP, or gross domestic product, as its chief measure of economic health. This is why the current rise in GDP has led economists to proclaim that a recovery is under way, even if unemployment is at postwar highs and wages are uncomfortably low.

“If the economy were running a footrace, GDP would be breaking through the ribbon at the finish line while employment would be coming along afterward in a stretcher,” said Murtaza Baxamusa, director of San Diego’s Center on Policy Initiatives.

There’s no question that a rise in GDP — reflecting increasing purchases by consumers, companies and government agencies — is a positive sign. But it often seems unhinged from the realities of the typical American family. The latest sign of that disconnect came last month, when the U.S. Bureau of Economic Analysis released its report on state and regional economic output.

According to the BEA statistics, the domestic product of San Diego County and California — and most other regions throughout the country — rose last year, even as we endured the worst recession since the Great Depression.

According to the BEA data, 13 states saw declines in GDP in 2008, led by Alaska, which dropped 2 percent, and Florida, Delaware and Michigan, which dropped about 1.5 percent. Arizona, Nevada and seven other states dropped by lesser amounts.

California grew by 0.4 percent. There’s a bit of irony in that, since some politicians in Sacramento insist we should emulate states like Arizona and Nevada if we want to achieve lasting growth.

San Diego County grew 4.5 percent, putting us in the top 30 percent of metropolitan areas nationwide. In comparison, 111 out of 366 metro areas declined.

But even as San Diego’s economy grew, our unemployment rose by 50 percent. Taxable sales declined by around 2 percent. Home values plummeted 30 percent. The poverty rate rose from 11.1 percent to 12.6 percent.

“While GDP can be a leading economic indicator for employment, for somebody who’s currently out unemployed or having a hard time making ends meet, it’s not necessarily a great measure,” said Amar Mann, BEA regional economist in San Francisco.

There are several reasons for the gap between GDP and economic well-being. For one thing, major fluctuations in low-wage jobs, such as the massive loss of retail and temporary jobs in the past couple of years, can be outweighed by minor fluctuations in high-paying jobs, such as last year's 6.5 percent rise in scientific and technical workers.

Even though there tend to be far fewer higher-paying jobs than lower-paying jobs, growth in high-salary occupations can help push GDP forward.

"In this recession, the jobs that pay well but don't employ many people have continued to grow, while the industries that produce jobs for most of us are still turning downward," Baxamusa said.

Critics complain that GDP also records as positive some items that could be deemed negative for most people. If consumers put themselves into debt to buy fancy cars or TVs, that's a positive for GDP. If they save their money, that's a negative.

Similarly, worker productivity, reflecting the amount of time workers spend making products or providing services, can also propel GDP forward. Productivity rose 2.8 percent last year.

But even though productivity is nice for the economy and companies alike, it often equates to higher unemployment or less pay for workers, as employers cap wages, adopt new technologies or move their production lines overseas to cut costs.

In a book published posthumously last year, Donella Meadows, a system analyst at Dartmouth College, complained that GDP "measures effort rather than achievement, gross production and consumption rather than efficiency." She noted that if there are more car accidents, medical bills and repair bills, GDP goes up, but it goes down when people replace inefficient, short-lived light bulbs with energy-efficient bulbs that can last for a decade or more.

Complaints about GDP are nothing new.

More than 40 years ago, Robert Kennedy complained that while GDP embraces such things as the production of cigarettes, the sale of handguns to criminals or the destruction of forests and construction of smokestack factories, it "does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. . . . It measures everything, in short, except that which makes life worthwhile."

More recently, Nobel Prize-winning economists Joseph Stiglitz from Columbia University and Amartya Sen from Cambridge have been commissioned by the French government to explore alternate methods for measuring the economy.

Last month, they presented a report in Paris calling for an end to the "fetishism of GDP."

They say that though GDP is useful, it should be supplemented with data that would reflect such things as the quality of goods being sold as well as the quantity, the environmental impact of production, the balance between work life and home life, the distance between rich and poor and the availability of jobs that lead to sustainable growth.

"GDP statistics were introduced to measure market economic activity," Stiglitz said. "But they are increasingly thought of as a measure of societal well-being, which they are not."