

Statistic That Gets No Respect

G.D.P.'s Accuracy Is Under Attack From All Sides

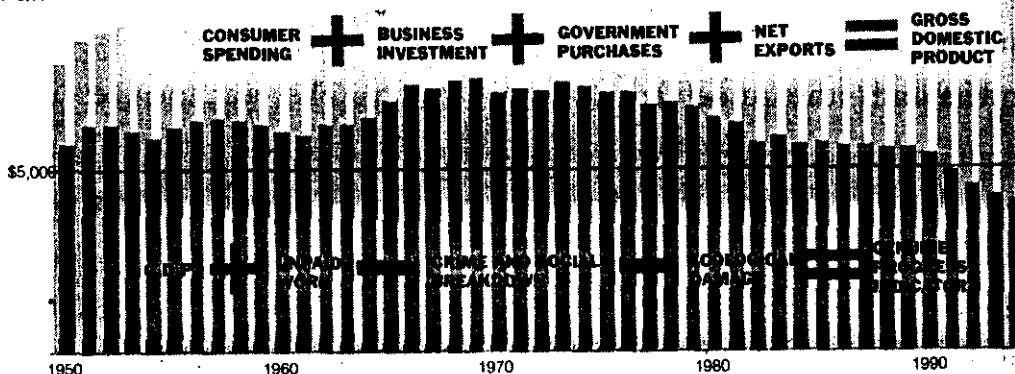


Measuring the Wealth

The gross domestic product plays a crucial role in economic and political life, but its accuracy is under attack. The G.D.P. simply sums up economic activity. A group of activists has developed an alternative, called the Genuine Progress Indicator, that attempts to take into account social and ecological costs in measuring the well-being of American society.

\$15,000

\$10,000



1950 1960 1970 1980 1990

By ROBERT D. HERSHEY Jr.

WASHINGTON, Dec. 18 — Jean Brown is an energetic widow who works nine hours a day, four days a week doing clerical work and sometimes pushing the toilet-paper-laden "comfort cart" at the veterans hospital in downtown Baltimore. Her pay? Nothing, unless you count a parking space, a \$4 lunch chit or the offer of a free flu shot.

The V.A. hospital estimates that the work done by hundreds of volunteers like Mrs. Brown is worth at least \$350,000 a year. But none of it registers on the gauge most widely used to assess the nation's well-being — the gross domestic product — which represents the estimated total of goods and services produced in the American marketplace.

No other statistic plays as influential a role in the nation's economic and political life as the G.D.P. does. These days momentous Federal budget negotiations hang on impossibly precise projections of economic growth over the next seven years. As the Presidential campaign hits full stride, politicians with next to no idea of how the gross domestic product is compiled will soon be invoking it as evidence of how well or poorly the country has done in recent years.

But within economic circles, the compilation of the gross domestic product is coming under increasing attack from all sides. Environmentalists argue that it overstates the health of society by ignoring the drain on natural resources and the cost of ecological damage.

On the other side, Alan Greenspan, the chairman of the Federal Reserve, is among economists who argue that it understates the strength of economic

New and Old G.D.P.

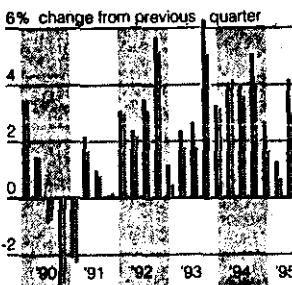
Changes in the structure of the economy have forced the Government to revise its chief gauge of output. Switching to a chain-weighted measure, which is based heavily on current price information, eliminates upward biases.

■ FIXED-WEIGHT G.D.P.

Assumes that relative prices of goods and services do not change over time.

■ CHAIN-WEIGHTED G.D.P.

Based more closely on current prices.



Sources: Department of Commerce, Redefining Progress

The New York Times

growth by overlooking much of the productivity and quality improvements technology brings.

And analysts from various spots on the political spectrum note that volunteer work, child care and other work at home are ignored, while the figures

include the cost of building prisons and the fees of divorce lawyers — items that could more properly be deemed a reflection of social breakdown, not economic advance.

The G.D.P. "isn't really a measure of economic welfare," said Gail D. Foster, economist at the Conference Board, a business-sponsored research group in New York.

Indeed, close scrutiny helps explain one of the central mysteries of the day — how total output can grow at a brisk rate while much of the population believes it is losing ground. A lot of the reported growth of the last 20 or 30 years has come from Americans working longer and harder rather than smarter. The gross domestic product has grown, but often only because some activity like child care has been shifted from the home into the paid sector — where quality might well be inferior.

The Government itself has long recognized that the statistic is flawed. Starting with the newest figures for the third quarter, which were scheduled to be released today and now will be available as soon as the partial Government shutdown ends, the Commerce Department will switch primary emphasis to a calculation method known as the chain-weighted system from the traditional fixed-weight system. The new method, which has been used as a backup measure for several years, will lead to calculations showing a slower pace of economic growth.

But rather than satisfying the critics, the new accounting system is likely to widen the debate over the appropriateness of the G.D.P. as a measure of whether Americans are actually living

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The G.D.P.: A Statistic That Gets No Respect

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better.

In simplest terms, the statistic is designed to measure the sum total within the borders of the United States of consumer spending, business investment, government purchases and foreign trade. But nothing is simple about the calculations that go into it.

Analysts say the figure, while still probably the best single gauge of the overall pulse of the economy, no longer accurately reflects the changing dynamics of an increasingly service-oriented society. Its conceptual deficiencies, they say, are grounded in the statistic's roots as a World War II-era tool for judging military-industrial potential.

Nor is gross domestic product viewed as simply a neutral judgment of the economy. The fiercest criticism comes from environmental groups and others fearful that their interests are being swamped by an all-consuming attention to sheer output.

"The G.D.P. was never intended to be a yardstick of economic progress," said a report by Redefining Progress, a public policy institute in San Francisco. "It says nothing about the impacts of current modes of production upon the nation's health and well-being. Yet economic analysts and the media accord the G.D.P. a totemic stature and regard its growth as the ultimate measure of economic success."

The group has begun to publish an alternative version that takes the Commerce Department's tally of economic activity and adjusts it, among other ways, to include unpaid work and exclude social and environ-

mental costs. The difference is striking. The group's so-called Genuine Progress Indicator shows almost uninterrupted decline since 1969, with the measure slumping at an annual rate of 1.4 percent in the third quarter of 1995. That contrasts sharply with the Government's estimate of a 4.2 percent rate of expansion during that period.

The Commerce Department, encouraged by Clinton appointees, published data in spring 1994 that sought to account for the depletion of oil and other nonrenewable resources. The department hoped to eventually include factors like the use of forests and changes in air quality. But further development of the measure has stalled because some members of Congress worry that such data might be used against the oil and mining industries.

In contrast to these criticisms, which suggest that the G.D.P. exaggerates national well-being, some important economists believe the G.D.P. errs in the other direction. They say the economy — at least in terms of material prosperity — is actually considerably stronger than the official figures show. Mr. Greenspan, a leader in this camp, said recently in a Chicago speech that the G.D.P. "increasingly underestimates the market value of goods and services," primarily because advances in technology have improved life and bolstered productivity in ways statistics fail to capture.

That view is shared by private economists like Stephen S. Roach of Morgan Stanley and Bruce Steinberg of Merrill Lynch.

"If properly measured, real G.D.P. growth was probably stronger during the 1990's than currently reported, rather than weaker," Mr. Steinberg told clients.

The Government revision is part of a longstanding effort to keep this gauge up to date and realistic — an effort that one official compared to trying to fit someone running a 100-yard dash for new clothes.

The goal is to halt a systematic overstatement of G.D.P. caused primarily by the sharp drop in computer prices since 1987, the base year. The widespread use of personal computers has swelled G.D.P. more than thought appropriate because the formulas assume that a unit of computing power — such as the ability of a central processing unit to crunch numbers and manipulate data — still costs as much as it did eight years ago. In fact, it is many times cheaper. The distortion becomes greater over time.

The department will now use a combination of preceding-year and current prices for a range of products and services, with G.D.P. reported as an index whose individual components — consumption, investment, government purchases and net exports — will no longer add to total G.D.P.

The result, economists believe, will be that the chain-weighted figure will be about a percentage point lower than the fixed-weight calculation for the last three years. While only the method of measurement has changed, that may well have a



Lisa Berg for The New York Times

Jean Brown, 71, a volunteer at the veterans hospital in Baltimore, rolls her "comfort cart" laden with books, magazines and toiletries.

Many things don't register on the gauge of the nation's health.

negative effect on the way many people view the economy.

Many specialists insist the changes only scratch the surface.

"They're only working on the input side, not on the output side," said Joseph W. Duncan, formerly a top-ranking Commerce Department statistician and now chief economist for Dun & Bradstreet. By this he means that the G.D.P. will still not pick up hard-to-measure changes in the quality and convenience of services, such as education, computer software or banking.

And since the components no longer add up, economists say it will be even harder to construct meaningful forecasts and provide readily understandable data for policy makers.

Indeed, some critics say it is time to start over with entirely different measures. Richard M. Salsman, an economist at H. C. Wainwright Economics in Boston, disparages the G.D.P. accounts as based on an era

when most economists believed that consumption was the driving force of the economy. He argues that the statistic undervalues business investment, does not capture the dynamism of new inventions and fails to account correctly for transactions that take place among companies.

"It's a kind of tweaking of a system that is so horrible to begin with that it's almost comical," Mr. Salsman said. "It excludes the bulk of activity that goes on."

Others complain that the G.D.P., in looking at only measurable things, holds a distorted mirror to daily life. William R. Mattox Jr., vice president for policy at the Family Research Council in Washington, argues that the gauge needs to be put in perspective.

"If we hold it up to exalted status," he said, "and ignore families and volunteers, including the church, we run the risk of creating the false impression of great health while experiencing cultural collapse."

As for Mrs. Brown, the 71-year-old volunteer at the V.A. hospital and the widow of a World War II veteran plans to keep on contributing to the well-being of the community even if it never shows up on the bottom line.

"I'm giving back to the country," she said, "and the men who were with my husband."

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