Is GDP Becoming Obsolete? The Beyond GDP

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GDP is a closely watched indicator of the current health of the economy and an important tool of economic policy. It has been called one of the great inventions of the 20th Century. It is not, however, a persuasive indicator of individual wellbeing or economic progress. There have been calls to refocus or replace GDP with a metric that better reflects the welfare dimension. In response, the U.S. agency responsible for the GDP accounts recently launched a "GDP and Beyond" program. This is by no means an easy undertaking, given the subjective and idiosyncratic nature of much of individual wellbeing, and the value judgments often involved. This paper joins the Beyond GDP effort by extending the standard utility maximization model of economic theory to include those non-GDP sources of wellbeing for which a monetary value can be established using an expenditure function approach. Our way of proceeding links GDP to a monetary metric of wellbeing we call "expanded GDP (EGDP)," and does so in a way that applies a common unit of measurement to both (not a small matter in the Beyond GDP debate). Thus, Beyond GDP need not mean abandoning current GDP with all its policy uses. Moreover, essentially the same dichotomy applies to estimates of the stock of wealth. A welfare-adjusted stock of wealth can be estimated using the same general approach used to incorporate wellbeing into GDP. This stock is useful for issues involving the sustainability of wellbeing over time while the conventional stock, measured at cost, is useful for many policy issues. One of the implications of this dichotomy is that the conventional cost-based wealth may increase over a period time while the associated welfare-corrected wealth may show a decrease (due, for example, to strongly negative environmental externalities).