A Modest Challenge to GDP Reforms

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This paper explores the importance and possibility of GDP reform by examining the weaknesses of the current GDP concept. The GDP concept itself involves flawed metrics; there are more effective measures of economic and societal well-being. The weaknesses of GDP can be broadly divided into two primary categories: market workability and the GDP framework. We show four types of GDP reforms, one of which is modest and temporary. From the welfare viewpoint, using GDP in its current form disguises diluted or inflated non-welfare factors. If not dealt with, such misleading information is likely to produce a misguided economic growth strategy and a reduction in the likelihood of a "positive sum" result. As Stiglitz says, "If we have the wrong metrics, we will strive for the wrong things."

The paper is organized as follows:

- Section 2 shows some relevant notes on well-being and GDP. Section 2.1 presents some notes on social indicators to well-being statistics and Section 2.2 shows some useful perspectives on GDP.
- The weaknesses of the current GDP concept are discussed from various perspectives in Section 3. We describe three kinds of weaknesses in the GDP concept: market failures; market distortions and limitations; additional issues, some of which relate to the new concept of social balance.
- We propose four types of GDP improvements intended to address the above–mentioned weaknesses in Section 4.1. The first two types are based on the current GDP concept; the remaining two are broader concepts along the line of GPI. Some questions regarding GPI are raised.
- In Section 4.2, broad (general) targets for improvement are presented. Insofar as inequalities of income distribution, poverty, and most social maladies are market results based on the prevailing economic system, our countermeasures to achieve these broad (general) targets are fundamentally important to consider if we are to maintain and advance living satisfaction. Practical suggestions for improving current GDP are given.
- Tentative conclusions and further studies are discussed in the final section.

Conclusion

GDP is a popular concept and a useful measure of economic activity. Political leaders, government officers, business leaders, and specialists routinely use GDP as an indicator of economic performance. However, what this metric actually measures is not always fully understood. Stiglitz states that the current national accounts are flawed statistics and are not a measure of societal well-being. He proposes reforms that will better measure well-being.

This paper dealt with these important issues. First, its scope was limited to economic well-being (not multidimensional well-being), so that GDP could be discussed as a core concept. Second, we described three kinds of weaknesses in the GDP concept: (a) market failures, (b) distortions or limitations viewed from a welfare perspective, and (c) other issues viewed from a welfare perspective. Third, we proposed four types of GDP improvements intended to address the above-mentioned weaknesses. The first two types were based on the current GDP concept; the remaining two were broader concepts along the lines of GPI. We raised some questions regarding these broadened concepts (GPI). Finally, we addressed the fact that inequality of income distribution, poverty, and most social maladies are market results based on the prevailing economic system, and established the need to consider grand (general) targets for improvement: safety nets, social balance, environment protection, and economic stability.

Our type two recommendations, in the form of GDP (improved), represent a moderate set of suggestions for the improvement of GDP contents and quality. The suggested grand targets are fundamentally important for maintaining living satisfaction. Based on this, we assumed a welfare perspective and suggested measures that would cope with market failures, maintain social balance, deal with the institutionalization of waste, and promote policies for reducing or eliminating pollution.

From a welfare viewpoint, a concept such as GPI has a more explainable value than GDP, but for practical use, it lacks a sufficient reflection of market economic activity. In the United States, per capita GDP (in real terms) showed a steadily increasing trend that began in 1950; at the same time, per capita GPI (in real terms) was slowly increasing until the mid-1970s, but which has stagnated since then. As a result, the gap between the two has increased yearly. The same has been true in the United Kingdom and Australia. This phenomenon may be strong indirect evidence that GDP includes a large non-welfare component. If we consider the contents of GDP, the likelihood of a “positive sum” result in which all constituents are better off has become quite small. Pursuing a GDP growth strategy is not always beneficial. We need to consider the real meaning of GDP, though other available indicators of societal well-being are helpful in judging the situation.

Through this study, some issues have been clarified; however further study is in order:

(1) The causes of the present weaknesses in GDP are broadly divided into market workability based on the economic system, and the GDP framework. According to categorical differences, we need to consider countermeasures. (2) From the viewpoint of welfare, GPI has a more explainable value than GDP. However, it is considered a poor indicator of market economic activity, but, in my estimation, better reflects broad economic performance. This point needs further discussion.