NORTH AMERICA 19.12.2019 | David Leonhardt

GDP is broken, but we can fix it

The statistics keep on rising, but they don't track the well-being of most Americans. It's time for an adjustment

The US Commerce Department will announce the latest GDP numbers Friday, and they will probably be solid. The economy seems to be growing at an annual rate of about 2 per cent, which is not bad for the 11th year of an expansion.

After the numbers come out, something else will probably happen: Pundits will once again express bafflement about the apparent disconnect between the healthy US economy and the sour national mood.

But there is really no disconnect. The fault — with apologies to Shakespeare — is in our stats, not ourselves.

Americans are dissatisfied, and have been for years, largely because the economy as most people experience it has not been booming. GDP — or gross domestic product, the economy's total output — keeps on rising, but it no longer tracks the well-being of most Americans. Instead, an outsize share of economic growth flows to the wealthy. And yet GDP is treated as a totemic measure of the country's prosperity.

Enhancing GDP data

Consider the true picture: Middle-class income growth has been sluggish for decades. The typical household is still poorer than it was before the financial crisis began in 2007. Most alarming, average life expectancy has recently been declining. No wonder polls show that a majority of Americans has been dissatisfied with the country's direction for 15 years in a row, a period that encompasses the entirety of the current GDP expansion, the longest on record.

So it's time to stop wondering why Americans are unhappy — and instead create a version of GDP that reflects reality. Which may finally be on the verge of happening.

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A team of Commerce Department economists has been working on a new version of GDP, one that will show how much of the economy's bounty is flowing to different income groups. The headline number would still exist, but the new data, known as 'distributional accounts,' would make clear who was and wasn't benefiting. The department expects to publish a prototype statistic next year.

Several members of Congress, meanwhile, have introduced a bill that would require the department to release this distributional data alongside the normal GDP numbers every quarter. That's important, because it would change the national discussion that occurs whenever GDP is released.

A broader shift

'The government is still using a black-and-white television,' Chuck Schumer, the Democratic Senate leader, told me. 'We gotta catch up, so we get a more accurate picture.'

Schumer plans to reintroduce the bill in the coming days, and he said he was hoping that a Republican would co-sponsor it. The expanded version of GDP would include estimates for every decile of the income distribution — 10th percentile, 20th and so on — as well as for the top 1 per cent.

If it happens, Heather Boushey, the author of a recent history of the US economy, 'Unbound,' says it could be the most significant improvement in economic statistics in decades.

It would also be part of a broader shift. The Federal Reserve created its own distributional accounts recently, to offer more detailed data on wealth. And Australia and the Netherlands have both begun releasing distributional GDP numbers.

An economy that works for all

The economist who oversaw the first version of GDP in the United States — Simon Kuznets, a future Nobel Prize winner — probably would have been in favour of these developments. Kuznets cautioned that people should not confuse the economy's total output with economic well-being. 'Economic welfare,' he wrote in 1934, 'cannot be adequately

measured unless the personal distribution of income is known.'

In the mid-1970s, and especially the 1980s, however, the situation changed. The income flowing to everyone but the affluent began to trail economic growth — by a lot.

The failure of GDP to include distribution didn't matter much in the decades after World War II, because economic growth was remarkably inclusive. If anything, the middle class and poor received raises that outpaced economic growth.

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Why? Labour unions shrank, giving workers less bargaining power. Business executives and investors decided to maximise corporate profits, regardless of the societal effects. The government became more passive about regulating big business. Government also scrimped on investments that create good-paying jobs, like education. And taxes fell much more for the rich than they did for everyone else.

Some academic economists and government agencies publish statistics that describe these trends, of course. But they don't have the same authority — and don't always have the same rigour — as GDP. That's why fixing our broken GDP numbers would be a step toward creating an economy that works for most Americans.



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