

# Is the rate of change of GDP the best way to measure economic growth?

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*Based on work with Carol Corrado, Kevin Fox, Peter Goodridge, Cecilia Jonas-Lasino, Dan Sichel: slides are my personal views.*

## The growth of public interest in GDP...

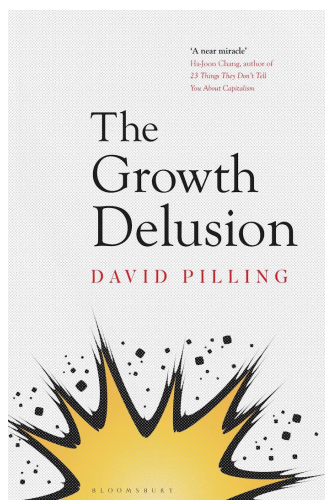


### Independent Review of UK Economic Statistics

Professor Sir Charles Bean



...and doubt?



- P.12 ““We live in a society in which a priesthood of technically trained, economists, wielding impenetrable mathematical formulas, sets the framework for public debate”
- P.304 “The invention of GDP has given rise to a class of technocrats and economists who implement policy for the good of the economy, but not always for the good of the rest of us”.

My view...

- Don't throw away GDP
- Keep the desirable features of GDP, but improve it
- This presentation
  - What are those desirable features?
  - What can be done to improve it?

## What's output in this mini-economy?

The Amazon warehouse, Dunfermline, Scotland



- Sells 100 iPads, 100 biros, 100 packs of photocopy paper.
- Example: [Human Development Index](#)  $\cong \sqrt[3]{(\text{life expectancy} \times \text{education} \times \text{GDP per capita})}$
- **Principle 1: Use meaningful weights.**

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## ..and output in this mini-economy?

The Amazon warehouse, Dunfermline



Bay Printing Copy shop, Dunfermline (3 miles away)



- Suppose Bay Printing buys biros and photocopy paper from Amazon
- Example: [EU Innovation Scoreboard](#):  $(\text{R\&D} + \text{hi-tech equipment exports} + \dots)/N$
- **Principle 2: Don't double count**

#MEMA

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## Improving GDP

- Build on the strength of GDP
  - Meaningful weights = prices
  - No double counting = subtract out “intermediate” goods
- Some of the issues this raises
  - What is an intermediate good? Intangible investments
  - Do prices give the right signals?
    - No prices: the “production/non-production boundary”
    - No prices: free goods
    - Quality-adjusted prices

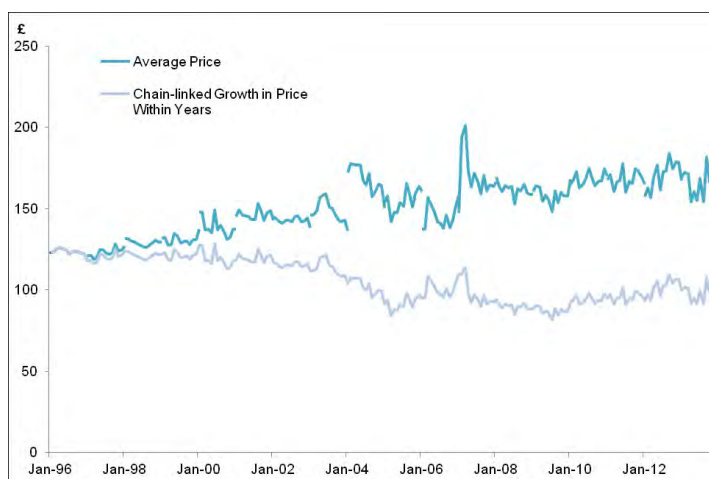


dyson



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## Prices of vacuum Cleaners, 1996-2014



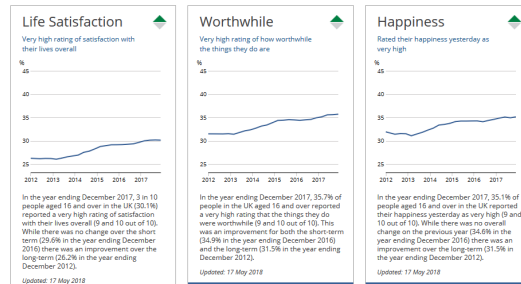
Source: Johnson, P, (2015), [UK Consumer Price Statistics: A Review](#).

## Some questions

- What to do about the production/non-production boundary?
  - Housework
  - AirBnB
- Prices
  - Free goods: implicit valuations?
- “Dashboard” approach?

### Personal Well-being

Includes individual's feelings of satisfaction with life, whether they feel the things they do in their life are worthwhile and their positive and negative emotions.



Source: [ONS well-being dashboard](#)<sup>9</sup>