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Another Accounting Scandal: GDP

Why trends like housework, parenting, and education should count on our national report card

by [ALAN THEIN DURNING](#) | posted 02.25.06

On February 28, government statisticians will release their preliminary estimates of gross domestic product (GDP) in the fourth quarter of 2005. Investors and policymakers will watch this semi-official national report card for the effects of Christmas sales and dipping gasoline prices.

But whatever the spin of the day, the numbers will be as bogus as Enron's balance sheets. GDP purports to tell how the economy is doing. All it really does is track one pinched subset of the economy -- the part that's expressed in current spending -- and even there, it presents a distorted view.

Fortunately, a quiet, green-eyeshade program is afoot, promising to fix GDP. A National Research Council panel of 11 economists has proposed sweeping reforms to the calculation of GDP in a report titled [Beyond the Market](#). The results might ultimately dethrone GDP once and for all.

Estimated twelve times a year by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA), GDP is not a profit-and-loss statement for the nation, as many assume. It is a tally of finished goods and services. GDP math counts all spending as good, whether it's on weddings or divorces, college tuition or Botox injections, prenatal care or cyberporn.

Consequently, everyone from President Richard Nixon to Nobel Prize-winning economist Simon Kuznets (who helped devise it in the 1930s), has denounced the GDP (and its sibling, GNP) as a measure of progress. Still, the public, led on by the media, continues to treat BEA's GDP figures as society's report card -- and we've organized our national economy to get "A's." GDP announcements send waves through the nation, nudging investment decisions, changing interest rates, and making or breaking political careers.

To improve GDP accounting, the National Research Council panel, chaired by Katharine Abraham of the University of Maryland, proposed that BEA build a set of "satellite accounts" that assign a dollar value to such unpaid activities as housework, studying, and parenting. They also propose that satellite accounts subtract from GDP some of the environmental costs of production.

These outrigger accounts would put the main financial accounts into perspective as never before. For one thing, the satellite accounts would be huge. One study estimated that Australians produce goods and services in their own homes for their own consumption -- by cooking, cleaning, doing repairs and yard work -- worth nearly half as much as GDP. And housework is just one of five new accounts the Abraham panel proposes!

For another, satellite accounts might put GDP growth rates in a radically new light. A sizable share of GDP growth since 1970, for example, may have consisted of the monetizing of previously unpaid labor. In British Columbia, Canada, for example, the main source of job growth in the 1980s was women entering the labor force to do in specialized, centralized facilities the same work that they and other women had previously done in their own homes: cooking, cleaning, and childcare. If BEA tallied housework alongside GDP, in other words, we might see growth in the money economy in exact proportion to the shrinkage of the home economy.

A satellite account on education would reveal two more deficiencies. GDP categorizes most spending on education as consumption, not investment -- an accounting convention that would have made even WorldCom blush. And worse, GDP completely ignores the single most valuable resource used in education: students' time.

American education levels have long risen. The shares of people who are graduates of high school and college have never been higher. All this learning constitutes a powerful economic asset: By one estimate, most US production is attributable to its residents' knowledge, not its physical assets. But in GDP math, time spent learning has no value.

Housework and education are oversights in GDP, but they're modest compared with two colossal blind spots: health and parenting. Americans have reaped unprecedented health improvements in the last century; their life spans have almost doubled. But, because this health can't be bought or sold, it is invisible to GDP. All BEA does is tally spending on medical care.

A satellite account would improve on that, but, the panel admits, only a little. It would add up the time people spend exercising and caring for ill loved ones. The value of health itself -- the gift of living almost 80 years, on average, rather than 40 as did our forebears a century ago -- would remain unstated.

Similarly imponderable, using GDP math, is the true value of parenting, perhaps the most essential unpaid work any society performs. The panel notes that raising children costs more time than money. It estimates that middle-income, two-parent families with two children spend about \$9,000 a year on each child under the age of 12. They spend an additional \$12,000-worth of time per child. And that minimal estimate assumes that parents' time with their children is worth no more than the prevailing wage for US childcare workers (who get less per hour than coat-check clerks or dog walkers).

The examples of parenting and health reveal the limitations of denominating everything in dollars. Still, limited as they are, satellite accounts can inform the public about the state of the economy by spotlighting GDP's perversities. So let's hope that the Abraham panel's recommendations are embraced and broadly applied.

Imagine the press releases and news stories that might follow if satellite accounts were published along with GDP figures: "GDP up; parents' time with kids plummets." "GDP flat; education surges." "GDP and resource depletion both soar."

A decade of such headlines might refocus our attention. It might spur us to organize our society to win on measures more meaningful than gross production: things like the health of our families, the strength of our communities, and the integrity of our natural heritage.

In the meantime, citizens would do well to remember that GDP is an accounting scandal waiting to happen. Politicians should ignore the statistic, and the media should stop reporting it as news.

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