GDP & Beyond: Measuring Economic Progress & Sustainability

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“The big question concerns whether GDP provides a good measure of living standards. In many cases, GDP statistics seem to suggest that the economy is doing far better than most citizens' own perceptions. Moreover, the focus on GDP creates conflicts: political leaders are told to maximize it, but citizens also demand that attention be paid to enhancing security, reducing pollution, and so forth - all of which might lower GDP growth.

The fact that GDP may be a poor measure of well-being, or even of market activity, has, of course, long been recognized. But changes in society and the economy may have heightened the problems, at the same time that advances in economics and statistical techniques may have provided opportunities to improve our metrics.”

Missing the Mark

The Economist

Britain agonises about Afghanistan
The rot in Japan’s governing party
Europe’s energy insecurity
Goldman Sachs’s record profits
Summer camp for atheists

Modern Economic Theory

Where it went wrong—and how the crisis is changing it

BusinessWeek

WHAT GOOD ARE ECONOMISTS ANYWAY

TECH LOOKS POISED TO LEAD A RECOVERY
CREATIVE DESTRUCTION AT PEPSI
BIOFUELS: WHY BIG OIL MAY BE THE BIG WINNER

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What Can We Do Within The NIPA’s: Economic Progress & Sustainability

- **Measures of Economic Progress:**
  - Households
  - Regions
  - Business

- **Measures of Sustainability:**
  - GDP
  - Investment
  - Asset Prices
  - Leverage
Household Income: Alternative Estimates

Avg. growth, 2000-2007

- Real GDP
- Real DPI
- Real DPI per capita
- Real DPI less transfers per capita

2008

- 2.4
- 2.7
- 1.8
- 1.5
- 0.4
- 0.5
- -0.4
- -1.4
Spendable Income: Cash Measures

Avg. growth, 2000-2007

- Real DPI per capita: 1.8%
- Real Compensation per worker: 1.5%
- Real Wages per worker: 1.1%

2008

- Real DPI per capita: -0.4%
- Real Compensation per worker: -0.5%
- Real Wages per worker: -0.7%
Household Income: Cash Income*

* Cash income refers to income generated from the economy available for discretionary spending by households. This measure of Income excludes spending on such basics as food, shelter, clothing, child care, utilities, out of pocket medical care expenses, transportation and interest payments on consumer debt. Source: BEA NIPA data, deflated using PCE less food and energy price index.

** The slightly higher average annual growth rate in real DPI versus real discretionary income reflects the different deflators used to deflate each measure. The total PCE price index (used to deflate DPI) increased 2.3% from 2000-2002 and the PCE less food and energy price index (used to deflate discretionary income) increased 2.0%. Nominal DPI and discretionary income over the same time period increased 5.1% and 4.9%, respectively.
Adjusting for regional price differences

Source: BEA Regional data.
Regional Household Income

Impact of classifying retirement income in state of residence

Source: BEA Regional data.
Sustainability

- Measuring Sustainability:
  - Long-Term
  - Examples from Recent Experience
Business Income: Real Gross & Net Domestic Investment

Avg. growth, 2000-2007

Source: BEA NIPA data
Housing & Personal Income

Source: BEA NIPA data & Federal Reserve Board Flow of Funds data
Equity prices, NIPA profits & GDP

1949=1

Nominal GDP
"S&P closing prices"
Domestic Profits from Current Pdn.

Source: BEA NIPA data, Standard and Poor’s data
Household asset values & savings

Source: BEA NIPA data & Federal Reserve Board Flow of Funds data
Business Sector Leveraging

Source: BEA/FRB Integrated U.S. Macroeconomic accounts
Filling gaps in financial data

- More complete data on institutions that played a large role in the crisis
  - hedge funds
  - private equity funds
  - structured investment vehicles

- More detailed data by type of instrument
  - valuation
  - maturity
  - ultimate owner

- More data on leverage by institution and by instrument