

*Enzia*

## Gross Domestic Product: Grossly incomplete, but we can fix it

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### *Green accounting is honest accounting*

Gross Domestic Product (GDP) is broken. Robert F. Kennedy said as much in his first major presidential campaign speech. Simon Kuznets, the father of GDP, acknowledged its shortcomings. GDP is an imperfect indicator of human well-being at best, and outright misleading at worst.

Still, we shouldn't scrap GDP and start over.

Up to a point, GDP does tell us important facts about people's lives, livelihoods and aspirations. Living on a dollar a day is miserable no matter how you look at it.

Choking on economic growth, of course, is equally bad. There are a few simple, well-established steps we ought to take to bring GDP closer to where we should be. That, by the way, isn't "Green GDP" or "green accounting." It's honest accounting.

Start with accounting for the true value of natural assets still in the ground. We don't "produce" coal. We extract it. And the fact that the ton of coal extracted today is no longer there for the taking tomorrow should show up in our national income accounts. A ton of West Virginian coal adds about \$30 to GDP. Honest bookkeeping would decrease that amount to \$15. The same holds for oil, trees, water and all the other valuable natural assets that fuel our economy but are largely treated as free in our GDP accounting.

Then quickly move on to pollution. Every ton of coal, every barrel of oil causes more in external damages than it adds value to GDP. Properly measured GDP ought to reflect that fact.

In the end, policy makers should expand their horizon and look at a dashboard of indicators to get a fuller picture of the true state of the economy, society and the planet. Yet when it comes to GDP itself, the name of the game is fixing it rather than scrapping it. We know how to do that. The U.S. Bureau of Economic Analysis is at the ready. Let's have a go at it.

*See the original post on [ensia.com](http://ensia.com) for a perspective from Sir Partha Dasgupta, Frank Ramsey Professor Emeritus of Economics at the University of Cambridge.*

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