There's no end to the list of things the GDP doesn't measure: happiness, of course; children's playtime and stable marriages, as we've heard; health and life expectancy; inequality; human rights; corruption; carbon dioxide emissions; the time wasted in traffic jams. I could continue, but I think it's more helpful to try to focus on the things that conceptually could be included in GDP measures, but aren't.

Remember that GDP is a measure of value added in a given year, worked out using market prices as a yardstick. Given that framework, it makes sense to ask what value is added or lost and yet not recorded in the GDP statistics.

There are things that are just imponderable. As it happens, our GDP statistics do measure the value of poetry: it's the money spent buying poetry books, less the cost of printing and distributing the poetry books. You might say that's not a very good measure of the value of poetry. All I can say in response is that your time would be better spent reading and writing poetry than it would be in trying to figure out a better valuation.

Then there are transactions that could, in principle, take place in the market, but don't, and therefore lack a market price. In this case we have to either ignore those hypothetical transactions or guess what their values might have been. The biggest one is the value of people living in their own homes. If I moved out of my house into yours, and paid you $10,000 a year as rent, and you moved into my house and paid rent to me of $10,000 a year, then a naïve measure of GDP would increase by $20,000. But the actual consumption of shelter hasn't increased: we've simply turned it from a nonmarket transaction into a market transaction. In fact, GDP statistics do try to correct for this problem by including an estimate of the value people derive from living in their own homes.

GDP statistics also try to estimate production by governments and charities; it tends to be valued at the cost of the inputs. In other words, if the government spends $10 billion on something, the assumption is that this provides $10 billion of value. Maybe if people actually had to buy the government product, they'd be willing to pay a lot more, or maybe a lot less. GDP statistics wave away that inconvenient possibility.

Other forms of nonmarket work are just ignored completely. The classic (and alas, sexist) illustration of this was the observation that "if a man marries his housekeeper, GDP falls"—the point being that wives were expected to do the housework without earning a wage, so housework performed by wives isn't part of GDP calculations.

Presumably if a millionaire playboy (as played by Richard Gere) marries a heart-of-gold prostitute (as played by Julia Roberts), then GDP also falls?

Only if we're in a place where prostitution is legal. Otherwise, it makes no difference, because gray- or black-market transactions aren't included in GDP either—for the simple reason that if they're hidden from the government, government statisticians can't easily count them. That means GDP doesn't include things like illicit drugs, counterfeit products and jobs for which tradesmen are paid in cash.

Going back to housework, the general term for these cases is "household production," and household production does not typically appear in GDP statistics. So a child cared for by a family member doesn't add to GDP, but a child cared for by a nanny or babysitter does. Same goes for elderly relatives cared for at home instead of in a nursing home, vegetables grown in the back garden instead of bought in a shop, repairs you do yourself instead of calling in a tradesman, and so on.

It seems daft that a society in which parents work to pay for child care will have a higher GDP than a society in which parents look after their own kids.

It does, on the face of it. But why does it matter? It matters only if you believe that including parental child care in GDP would change social attitudes or government policies. Do governments really set out to incentivize commercial child care instead of stay-at-home parenting because they want to give their GDP statistics a boost? Personally, I doubt it—but if you think differently, you're free to instruct your government statisticians accordingly.

In fact, household production has long been one of the most controversial omissions from GDP. Simon Kuznets, perhaps the most influential of the creators of modern GDP accounting, was keen to include estimates of it. He thought that would make GDP a better measure of national welfare. It was an argument he lost, at least as far as official statistics are concerned, but one that has continued to surface over the years: Should GDP try to measure one thing well (market production) or should it try to be more comprehensive, at the risk of measuring many things badly?[2] I think there's a pretty good case for measuring what you can measure well.

Before I decide that, I need to know what else we miss by not trying to be more comprehensive.

The value of assets is the last big omission. If King Kong knocks down the Empire State Building and money is spent rebuilding it, GDP may well increase. (It won't *necessarily* increase: if the economy is already working at capacity, then the construction work will simply draw resources away from other projects without raising economic output; the issues here are much the same as those we discussed in our chapter on fiscal stimulus.) But if you had an iconic skyscraper, lost it and then spent \$10 billion having to replace it, it seems odd to record the \$10 billion spent as GDP without mentioning the loss of a building worth \$10 billion in the first place.

This issue is particularly obvious when it comes to environmental assets. If Qatar produces four trillion cubic feet of natural gas and sells the gas, GDP will record the proceeds of the sale. The fact that there are now four trillion fewer cubic feet of gas under Qatar will probably not even get a footnote, but you don't have to be a panda-hugging environmentalist to spot that something is missing from the calculation.

This sounds like a serious omission. Can't we include environmental assets in GDP?

In principle, yes. We could also value ozone depletion, the accumulation of greenhouse gases in the atmosphere, water quality, fish stocks—the list is, unfortunately, a long one. There have been attempts to produce a value for "ecosystem services"—one, published in 1997 by a large team of researchers, reckoned that the ecosystem provided benefits worth one to three times the world's GDP, which was \$18 trillion at the time.[3] That sort of estimate seems daft: it's pretty obvious that if we lacked sunlight, oxygen and water, we would all be dead. On what basis, then, does it make much sense to put a value on the world's ecosystem and tack it onto our GDP figures?

But on a more local basis there's a good case for trying to measure the value of ecosystem services that might be enhanced or destroyed by human activity. It is certainly important to try to value the ecosystem when it comes to working out the appropriate level for a carbon dioxide tax, or deciding whether to allow a developer to drain wetlands and stick an airport on top of them. Such environmental benefits can't be easy to estimate, but unless you plan to make such decisions on the basis of pure ideological prejudice, you need to try. As for adding all this to GDP? I have no strong objections, but the key question is whether such statistical efforts will help you make better decisions.

So you're saying GDP simply can't be improved as a means of measurement?

No. There are certainly specific technical fixes you could make, with the help of some trusted statisticians. One might be to include depreciation—calculating "net domestic product" instead of GDP. Depreciation, the declining value of old assets, is hard to measure. But with the rapid obsolescence of computers and other IT equipment, it is getting hard to ignore. A second issue is the value of services as opposed to manufactured goods: services are hard to value, particularly when trying to adjust for quality—if the price of a haircut or a restaurant meal in my neighborhood doubles over the course of a couple of years, is that because of inflation or because the area is gentrifying and new, fancy places have opened to offer a more refined product? This is a tricky task for the statisticians, but services are now such a large part of the economy that they, too, call out for closer statistical attention.

Here's another particularly topical issue: valuing financial services. Andrew Haldane of the Bank of England points out that in the UK, banks made their largest ever contribution to GDP growth in the final quarter of 2008—the quarter immediately following the collapse of Lehman Brothers and the implosion of the banking system across the world. This, quite obviously, reflects the fact that we don't do a good job of measuring the value of banking. There's a good case for poking around in such dark corners of the GDP statistics.