

Economic Statistics Can't Summarize All that Matters to Us

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Article:

The use of economic statistics is one of modern society's great innovations. Few would claim that economic policy is always or even mostly objective, but its caprices and intrigues are barely noticeable in comparison to centuries past.

However, the success of modern empirical economics, particularly the macroeconomic fixation on aggregate statistics, leaves a void. What does economics *mean* at times like these? Should our national economic goal be to maximize certain aggregate measures, like gross domestic product or real per-capita disposable income or the rate of employment?

You might think that it is, given the exhortations of the Bush administration as the economy languishes in recession and a war against terrorism is waged overseas.

But there's an irony here. Even though we can thank economists for those aggregate statistics, the training of professional economists begins with the dictum that the goal of an economy is to satisfy people's wants and needs, *not* to maximize consumption or income. So for example, when economists analyze "market failures," they do so because those markets have failed to satisfy our wants. The Declaration of Independence foreshadowed this orientation of economics when it listed the pursuit of happiness as one our "unalienable rights."

Of course it is true that in the aggregate, happiness is easier to pursue when income is high. There's a reason voters place so much emphasis on pocketbook issues at election time. Economic statistics like GDP are useful proxies for economy-wide performance.

But proxies aren't 100 percent accurate. They're not right all the time. And it seems to me that we're experiencing one of those times when it's not all about consumption and buying.

Mind you, it looks like retail sales in December will end up being pretty decent. Sales won't match the level of a year ago, but they'll be better than was expected as recently as last month. So we're not facing disaster as defined by the economic statistics. But at this time of year it's still worth thinking about what an economy is *for*.

This echoes some other columns I've written in this space. Last year, my take on the benefits and costs of a new downtown Millennium Centerpiece was essentially a plaintive wish that we could sometimes build things we want just because we want them. Does everything have to be evaluated according to the cold realities of economics?

A couple of years before that, I pooh-poohed the idea that a publicly funded baseball stadium would be an engine for economic growth in the area. But I said it would be perfectly reasonable to vote in favor of a new stadium if voters just wanted major-league baseball strongly enough.

It doesn't take a non-economist to tell us that our usual measures of economic activity and growth aren't always the best measures of our well-being. But this insight has a flip-side. It's not crazy to buy some things (ballparks, Millenium Centerpieces) because we just feel like it, but neither is it crazy to refrain from buying things because we just *don't* feel like it.

This is the first holiday season in 10 years in which we've found ourselves in a recession. Because of Sept. 11 and the recession that started last spring, the Bush administration asks us to spend and spend as though nothing were wrong. But something is wrong. Recessions aren't illusory, they're real. Our subdued national mood isn't made up, it's real. Neither the recession nor our mood will last forever, but each is real right now.

People have always seen the holiday season as a time to be with family and friends. It's also usually an orgy of commercialism and consumption. But is there something wrong with occasionally dialing back on the latter? Maybe every few years it should be okay for us to spend less, but concentrate more on family and community. Maybe a recessionary holiday season is an opportunity, not a tragedy.

The logic of markets is that people's economic behavior means something. That logic works now just as it does when times are good.

I suppose we could leave well enough alone and accept that we can't measure everything that matters. But humans are measuring creatures, and there are efforts afoot to change how we measure. For example, an organization called Redefining Progress has devised an alternative to GDP called the Genuine Progress Indicator, or GPI. You can read about it at www.rprogress.org/projects/gpi. The GPI takes into account more data than GDP does. It includes data on crime, pollution, and income distribution.

As one looks at the details of how the GPI is constructed, one sees a clear ideological slant: the GPI is the work of liberals. It would be natural for conservatives to devise an index of their own. Clearly, the construction of comprehensive measures is itself subjective. No one statistic can summarize and include everything in a way that everyone agrees upon.

Trying to create an alternative to GDP assumes that it is a measure, however imperfect, of national welfare. But strictly speaking, it's just a measure of income. Income is important, but it's not everything.

So relax and remember what is important as we enter the new year. I hope you spent money if you wanted to, and didn't spend if you didn't. Artificial spending is an ineffective way to help those harmed by the recession, so use your money to help out those folks directly. I'm sure such agencies as the United Way and the Urban Ministry would appreciate your call.

There's a beaded bracelet I've seen some Jewish kids wear. The beads have the Yiddish words for life, luck, love, and money. May we all be rich in all four in 2002, but more importantly, may we find the right balance among them.