

# VI. GDP and beyond<sup>7</sup>

Discussions about economic growth typically focus on GDP, which attempts to measure a country's economic output. But changes in GDP are an inadequate measure of human wellbeing. For example, growth could be generated by damaging the environment with detrimental longer-term consequences. More fundamentally, assessing developments in wellbeing also requires looking at the distribution of market outcomes and improvements in public services. At present, however, the focus of public attention is almost exclusively on quarterly GDP releases as the barometer of economic progress.

The Commission does not believe that any single indicator captures all aspects of wellbeing. There will continue to be debates about progress on the environment, inequality, tax policy and public services – and each of these debates uses its own measures. There is an important role for independently produced statistics to support such discussions. Indicators of subjective wellbeing also have a role.

It is crucial that discussions of growth and development should not be confined to a single dimension. But given our limited collective attention span, there is some advantage in choosing to promote one additional indicator of how changes in GDP per capita affect average households.

Our preferred measure is median household income. Focusing on household income provides a better way of capturing what people actually receive out of national income. The median is better than the mean since it is reflective of progress in the middle of the income distribution. For example, increases in GDP that go solely to the rich would not increase this measure. Thus, looking at median income would create more focus on inclusive growth that generates wider benefits. It also reminds us to look more deeply into distributional issues, particularly for the poorest parts of society.

It is possible to produce up-to-date measures of the evolution of median household income by making use of household survey data. Thus, median household income could be published on a timely basis alongside GDP. As more accurate information becomes available, the measures could be updated (for example, through so-called 'nowcasting' techniques).

A new focus on median household income would, we believe, influence debates about growth policy. Median income growth has lagged behind GDP per capita since the early 1980s, in part because of the growth of income inequality so that average income has grown faster than the median. In the years running up to the crisis, GDP per capita grew much faster than median household income, in part because there was a significant increase in government spending on health and education, which is reflected in GDP but not in income. The median is not perfect of course, because inequality can still widen at other parts of the distribution, but it is better than ignoring distribution entirely and it is easy to communicate to the public.

While the key proposals in this report are geared towards raising GDP, monitoring developments in median household income would be a particularly valuable way of gauging the inclusiveness of the growth that is generated. Progress in improving skills towards the lower end of the distribution would, we believe, create an especially important dividend that could be measured using this indicator. But shifting the public debate towards monitoring median household income as well as GDP would allow us to look more widely at inclusive growth and living standards beyond income, including education, health and a sense of community.

*“GDP is an inadequate measure of human wellbeing. However, the focus of public attention uses it almost exclusively as the barometer of economic progress.”*

<sup>7</sup> For a more detailed discussion please see [lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/SecretariatPapers/BeyondGDP.pdf](https://lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/SecretariatPapers/BeyondGDP.pdf)