We have a lot of lawn at our house, about an acre of irregular, hilly terrain punctuated with outbuildings, large trees, shrubs, flower beds and other obstacles. It’s not the lawn for a riding mower. When the lawn is green and mowed, our grounds look like a miniature Manito Park, Spokane’s magnificent South Hill landmark. Why anyone would want to maintain a miniature Manito Park around his or her house is a question I try not to face.

I do all the mowing at our house, with a fleet of three self-propelled, walk-behind mowers. If all goes well, I can mow all parts of the lawn in about 4 hours. In the spring and early summer, when the grass grows an inch and a half a day, I mow almost every day.

In a rare moment of standard economic rationality a couple of summer’s ago, my wife and I contracted for a weekly lawn mowing service. It was her idea, nurtured by an intuitive understanding of the law of comparative advantage. If I didn’t mow, I could spend 4-5 hours a week doing something more productive. I could specialize in economics, or some other home improvement project, and pay someone else to mow our lawn. But to apply the law of comparative advantage properly, we have to consider nonmarket benefits, as well as monetary compensation.

I love mowing. It’s like vacuuming, another of my household duties. I really enjoy doing it. There’s no ambiguity in mowing, no journal editor rejecting what you thought to be your best work, no student complaining about a grade, no academic
administrator failing to value your good teaching, no consulting client wanting the moon, yesterday, for a limited budget. The grass is long. I mow it. It looks great. End of story. Simplicity and bliss.

When we had the lawn service two summers ago we paid for it by saving less. The same amount of lawn was mowed at our house, but because it was a market transaction, U.S. GDP went up that summer by the amount of my payments to the mowing company. When I mow my own lawn, it’s not counted in GDP. Cash registers have to ring for something to be included in GDP, so when I pay someone to mow my lawn, GDP goes up. Ignoring the value of home production is one of the major shortcomings of GDP as a measure of economic well-being.

Perhaps a better way to think about this is to use a hypothetical example. Suppose in one instance my neighbor and I each mow our own lawns. Then one day we pay each other to mow each other’s lawns. GDP is higher in the second case, because market transactions are involved. Remember that GDP is the total market value of all goods and services produced in a country in a year. When my neighbor and I hire each other for lawn mowing, no more lawn is mowed, but GDP rises.

GDP has risen in the last several decades partly because previous home production has been shifted to the marketplace, in the form of day care, fast food meals, beauty care, yard care, and house cleaning. With more and more market labor by household members, GDP rises, but we never subtract off the value of the home production that is lost when we shift lawn care, child care, food preparation and house cleaning to the marketplace. The rise in GDP is overstated by the failure to value home production. In countries with less specialization and fewer market transactions, home
production is a large part of economic activity. Ignoring it dramatically understates economic well-being.

The value of home production is not the only problem with using GDP as a measure of economic well-being. In measuring GDP, we ignore the composition of the spending in the economy. But all types of spending are not equal in terms of economic well-being. A peaceful, law-abiding and harmonious economy where we produce and consume ballet, theater, sports events, concerts, housing, food and clothing can have the same GDP as one where we spend on burglar alarms, hand guns, divorce lawyers, air purifiers and water filters. “Defensive expenditures” to protect us from crime, social disharmony, and air and water pollution are part of GDP, but if we spend on those things, we can’t spend as much on recreation and the arts.

Likewise, nonmarket collective bads are not subtracted from GDP, and nonmarket collective goods are not added in. Suppose we hunt whales to extinction for the marketable goods we can obtain from them. GDP goes up from the sale of these commodities, but the value of knowing that whales exist, a collective good, falls dramatically. This loss of this “existence value” is not subtracted from GDP.

The value of leisure itself is under-represented in GDP. If we work more, our income and spending rise, and because of it so does GDP. We produce and consume more stuff, but the value of leisure activities falls. This value is not subtracted from GDP. As more members of households enter the workforce, less household leisure exists, home production falls, but GDP rises.

The underground economy and illegal activities are not included in GDP. As gambling, prostitution, and drugs move more to the surface of an economy, up from the
underground, GDP rises. But these activities have always been with us, and have provided value or well-being to people for millenia. But if these activities are outside the formal market, they’re not part of GDP. GDP understates economic well-being because of the existence of these uncounted, underground activities.

Finally, because of the flow orientation of GDP, we count only the value of new goods and services produced in a year. Except for an adjustment for owner-occupied housing, GDP measurement ignores the value of service flows from previously produced assets. I have a raincoat that must be ten years old. It provides a valuable service year after year, but it was included in GDP when it was produced ten years ago. Likewise, except for gas, oil and maintenance, my 1986 Isuzu Trooper is phantom wealth when it comes to GDP. My Trooper’s transportation services are incredibly valuable to me, but they are not counted in GDP.

Economists are a little inconsistent in their attitudes and behavior about GDP as a measure of economic well-being. On the one hand, any economist recognizes the shortcomings in measurement described above and knows that total spending in an economy is a flawed measure of economic well-being. On the other hand, we wait anxiously for quarterly GDP numbers to be released, and act as if GDP growth is in fact a good measure of economic health.

The social indicators movement, for lack of a better term, has been around intellectually for some time and might be gaining momentum in developing meaningful measures of economic well-being and progress. In 1995 an organization called Redefining Progress was established, and one of its main activities is computing a
genuine progress indicator (GPI) as an alternative to GDP. It was launched in 1995 with the question, “If the GDP is up, why is America down?”

In contrast with the rising GDP, the GPI has declined steadily since the 1970s. Economists were some of the main signatories in this 1995 call for better measures of economic progress. Perhaps this healthy effort will change the way the U.S. Bureau of Economic Analysis will measure economic output in the future. Perhaps they will develop additional indicators that will include my lawn mowing as part of the nation’s output, even when I do it myself.