

Do you know what is counted in national income statistics?

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All the major political parties want economic growth. But do our political leaders know what is counted as economic growth? Do you know what is included in national income statistics? And what is excluded? National income statistics cover all economic activity - that is activities which are paid for in money. So when people talk about the benefits of economic growth they are usually assuming that whatever is paid for is of benefit to society. Would you count all activities involving financial transactions as beneficial?

Advertising and spending

Advertising expenditures count as economic activity. But the purpose of a lot of advertising is to persuade us to spend more. There is a circular argument. The more we spend on advertising, the more we are likely to spend on the goods and services advertised. The nation is counted as better off both because we have spent the money and because of the advertising expenditure which persuaded us to spend the money. We might regret the expenditure and think that it would have been better not to have taken any notice of the advertising. But the national income statistics do not tell that part of the story. And what if we don't want, or can't afford, the goods and services that are advertised? Any advertising executive will explain that most advertising is ineffective. The poor are not better off as a result of advertising expenditure, but the cost of the advertising counts which is waste upon them is counted as a benefit in the national income statistics.

Armaments and defence

All defence expenditures count as economic activity. Britain devotes a higher proportion of national income to defence than almost every other country in the world. Following the fall of the Soviet Union, Britain should be able to dramatically reduce its defence expenditures. But that reduction will by itself reduce national income and make us seem worse off instead of better off. The reduction in defence expenditures may lead

to unemployment among highly skilled scientists and engineers. And it will be important to use the skills of the skilled scientists and engineers from the defence industries in ways which will contribute directly to our export or to our home industries. But the change from the production of weapons of destruction to the provision of goods and services for the export or home markets will not increase our well being as counted by national income statistics.

Transport and the environment

A lot of other things are counted in national income statistics which are not of benefit to many people. The cost of traffic congestion - in terms of increased consumption of petrol and wear-and-tear on the car and the time spent travelling for those in employment - are included. So the worse traffic congestion becomes the greater the national income! The cost of journeys to work also counts as part of national income. Because the cost of such journeys is necessary to earn income it doesn't seem right to also count them as part of income. But the cost of journeys to work are not treated differently in national income statistics from other personal expenditures. All the expenditures which are associated with environmental problems also count in the national income statistics. Burning fossil fuels creates specific pollutants and carbon dioxide which is leading to global warming. But expenditure on fossil fuels counts as a plus in the national income statistics.

Voluntary and unpaid activities

On the other hand national income statistics do not include voluntary or unpaid activities. The services of the housewife are not counted nor those of the househusband. The care which parents give to their children is not counted. Neither are the services of any other unpaid carers. The only aspects of philanthropic clubs and societies which count in national income statistics are the figures which appear in their accounts. The national income statistics do not include the time spent by the members of these philanthropic organisations working in some way for the benefit of the community.

Planning public expenditure

These inclusions and exclusions from national income statistics are not relevant to their main functions. National income statistics are not a measure of quality of life. But they are essential for the planning of public expenditure which do make a contribution to quality of life. Public expenditure is largely financed by taxation. The planning of public expenditures depends upon forecasts of the yield of taxation. The main function of the annual budget is to reconcile the government's plans for public expenditure with its expected revenue from taxation and other sources. The job of the Chancellor of the Exchequer at these times is to use forecasts of trends in the economy based on national incomes statistics to decide how much the government can spend.

Managing the economy

National income statistics are also needed to monitor trends in the economy. Governments, whatever their political persuasion, are expected to keep the economy on an even keel. There has to be some kind of balance between the objectives of economic policy - of minimising unemployment and inflation, maintaining an equilibrium in the balance of payments, and achieving economic growth. National income statistics, along with statistics on unemployment, prices, and balance of payments, are central to this monitoring process.

The misuse of national income statistics

The collection of economic statistics which are the components of national income statistics occupies 2000 staff and costs more than £50 million a year. This represents about half of all government expenditure on statistics. But national income statistics are among the most commonly misused statistics. You should not let the importance of national income statistics for the management of the economy and for the planning of public expenditure blind you, as it blinds many political leaders, to their limitations for other purposes. Except for year-to-year changes national income statistics are a poor measure of economic well being or standards of living. The use of national income statistics as an indicator of the quality of life is to confuse means with ends. The aim of

economic growth should be to support the quality of life. But economic growth does not automatically contribute to the quality of life.

Quality of life

Many believe that the absence of poverty and crime are important indicators of the quality of life. The extent of poverty and the incidence of crime are related to matters such as inequalities in income and wealth. But national income statistics deal in large aggregates and have little to say about matters such as the distribution of income and wealth. Many would emphasise the importance of the contribution which good health can make to the quality of life. National income statistics include expenditures on health services, but they say nothing about physical or mental well-being.

Education and investment

Many believe that the creation of an educated society is more important than one which is rich in material terms. This view would emphasise the importance of investment in education. But investment in national income statistics is measured in terms of Gross Domestic Fixed Capital Formation (GDFCF) - that is investment in buildings, plant and machinery. Statistics for GDFCF are important for analysis of what is happening in the economy and are essential for the management of the economy on a year-to-year basis. GDFCF includes investment in educational buildings and capital equipment. But such investment in buildings and equipment is not directly related to the scale of teaching and learning activities. Expenditure on education and training should be seen as investment for the future. One of the easiest things for political leaders, and others, to forget is that education and training are not counted as investment in national income statistics.