



Measuring Advancement of Economy and Society: Economic Growth and Well-being

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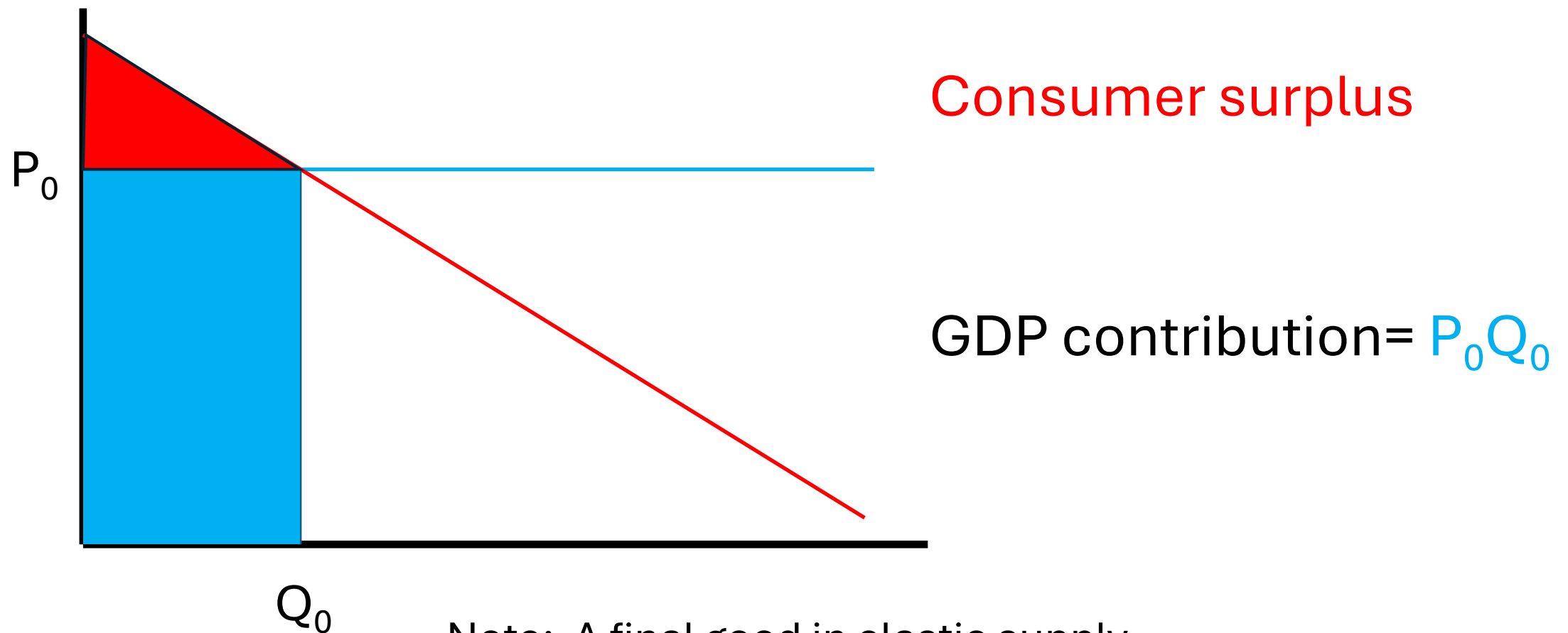
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Accounting for Nonmarket and New Goods: A GDP Perspective

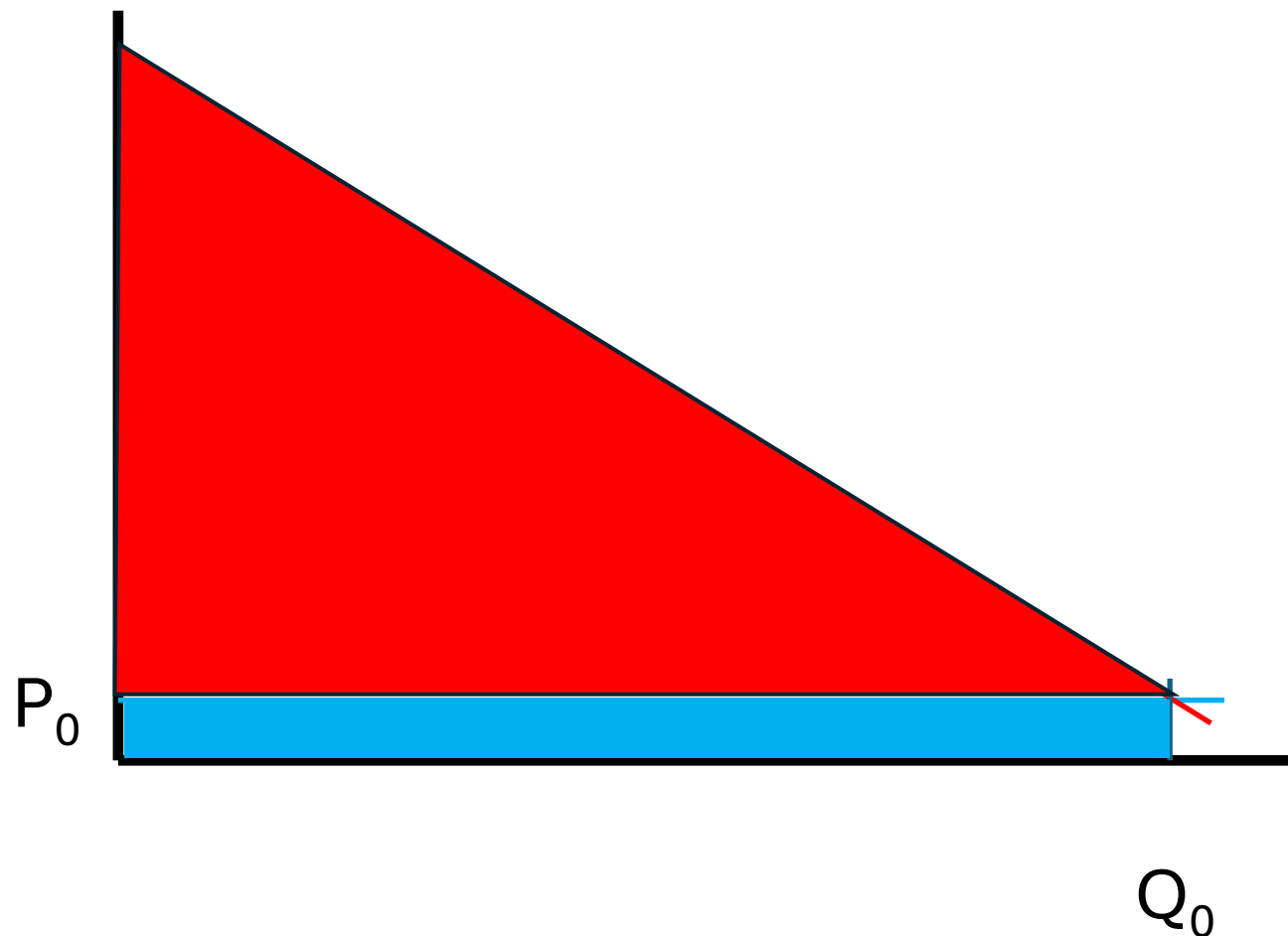
Fundamental principles of GDP: Useful even when broadening domains of official measures of well-being

- Valuation:
 - Price is the valuation of the marginal purchasers
 - GDP is a rectangle (quantity x marginal valuation), not a trapezoid
 - Consumer surplus is not part of GDP
- Adding up:
 - Product (demand) = Income = Production (value added)

GDP does not include consumer surplus



Suppose technical change makes this good almost free



Consumer surplus
Increases substantially

GDP contribution falls
 $P_1Q_1 \ll P_0Q_0$

Implications of the theory of value for well-being

“The best things in life are free...”



...and that's a good thing,
because there is not
enough income to pay for
consumer surplus

Implications for valuing new goods

- Consumer surplus from going from zero to positive quantity (J. Hausman)
- One-time adjustment, not continuing flow (which is captured by non-zero spending)

Implications for valuing non-market or “free” goods

Willingness to pay elicitations, e.g., for

- Clean water and air
- Safety
- Quality-adjusted life years

Should obey a budget constraint

Implications for valuing non-market or “free” goods: Elicitation problem

- Missing prices of non-market goods does not obviate economic principles (opportunity cost)
- If survey valuation, marginal valuation can be elicited by respecting the budget constraint
 - *Strategy Survey Questions* (Barsky, et al *QJE* 1997; Ameriks et al *JPE* 2020)
 - Similar question can be posed for social tradeoffs with aggregate budget constraint

Thought experiment: Life-extending miracle drug

Case 1: Widely available at negligible marginal cost

Case 2: Made available by government at same negligible price, but very costly to produce (financed by taxes)

- Need careful cost accounting (e.g., Cutler, Health satellite accounts)
- Where do the resources come from to pay for “free goods” or public goods?

Society wide-calculations

Use of private valuation may not be appropriate

- Public goods
- Rawls: Value of life not appropriately calculated based on individuals' ability to pay

Yet, social willingness to pay still needs to respect an aggregate budget constraint

Implications for topic of this conference

1. Absence of consumer surplus in GDP is the point:
Only the marginal consumer needs to pay reservation price
2. Satellite accounts for public or non-market goods should have a cost/income side
3. GDP an incomplete metric, but marginal valuation + adding up an important discipline for non-GDP accounts