How can governments think beyond GDP?

Economists are increasingly looking beyond Gross Domestic Product (GDP) as a measure of a society's health. ***Paul Anand (Open University)*** *discusses some of the ways in which the pandemic will affect inequality and wellbeing, and how adopting more radical measurements of economic health can help us recover.*

For a long time, academic economists have emphasised the limits of GDP, particularly as a measure of human wellbeing, environmental sustainability and – increasingly – the digital economy. As a result, the OECD and UN have developed alternative measures, the Better Life Index and the Human Development Index, which complement traditional national income monitoring by providing dashboards of indicators that track human wellbeing directly. These multi-dimensional indicators are particularly valuable right now, because policymakers – and societies more broadly – wish to protect utility and human development directly, need to understand what the losses to human wellbeing are (and who is likely to bear the brunt), and must make decisions ahead of national income data becoming available. There are two frameworks for doing this in economics: one developed by Amartya Sen and others and now the basis for the sustainable goals, and the other focusing on understanding subjective wellbeing variables.

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These approaches have different philosophical underpinnings, but in policy settings they actually share common interests, and can be used to produce complementary and reinforcing results by helping to understand key drivers of wellbeing. Some of the stylised facts or insights that emerge from this work include:

1. Income is an input to wellbeing, not a final outcome. There are often correlations with wellbeing but sometimes relations are non-linear, and for some activities or dimensions of wellbeing relations are weak or negative.
2. Individuals are heterogenous in their abilities to make use of income. A classic example concerns the case of disability, where it has been estimated that a person may need between 25% to 40% additional income on average to give them the same level of satisfaction with their income as a person without a disability.
3. Social resources do matter, and in various ways. This can be monitored by looking at the social ties a person has (individual social capital) or the collective aspects of social capital, such as the levels of trust that exist within society. Both can affect subjective aspects of utility directly and through the costs of financial transactions.
4. There is growing concern both within and outside economics in the rise of inequality in society. Angus Deaton has helped Institute for Fiscal Studies and EU plans to monitor the multiple dimensions of inequality from 2021.
5. Lastly, there is, particularly in the World Bank, a recognition of the need for community and public deliberation about social priorities – what we refer to as the social welfare function. As a result, most international

economic organisations have been thinking about how to address inequalities related to gender, race, income and health on their agenda for some time, and use the term ‘inclusive growth’ to refer to it.

Some governments have also adopted aspects of the wellbeing agenda into their work (the UK, France, Australia, New Zealand, and Bhutan being notable examples) and it is natural that such governments should ask what the implications are for their economic recovery planning. The Scottish Government has created an advisory group to help it come up with such a place, and sent invitations to consider what policies might be pursued. A group of us responded to this invitation with a series of recommendations as part of the LSE Wellbeing and Human Development Project, which are summarised and discussed below.

One set of priorities derives from the evidence that in recessions, people entering the labour market for the first time suffer long-term negative consequences, in terms of spells of unemployment and worse health over the course of their lives. Furthermore, when unemployment levels are high, employment rates take a long time to recover and active labour market policies appear less effective, according to some studies. As a result, large numbers might expect to be at risk of scarring or becoming discouraged – that is, wanting work, but not actively looking for it. Looking to address underlying shortages in the workforce is one way to go – for example by addressing shortages in STEM subjects, or of digital skills through training. At the other end of the age scale, it is likely that some workers will be forced to exit the labour market earlier than planned and they may become isolated and have to rely on lower pensions.

Here there may be value in considering non-conventional policies, perhaps working with charities, to help such workers find ways to continue using their skills and form other social networks to replace those that have been lost. Job-sharing is possible in many jobs, though not widespread – at least for a period, government might encourage and/or incentivise this as a way of keeping employees with low opportunity costs connected to work. There is also a growing recognition of mental health issues as a source both of poor wellbeing and low productivity. From this perspective, the lockdown may have served to exacerbate mental health problems.

Some companies are already organising training for managers in this area – which demonstrates a belief in its value – but these initiatives may underestimate their social benefits, or fail to cover those not currently in work. If so, there is an argument for further support. If workers and their employers are to be supported, then governments may wish to tie support to contributions to other relevant social priorities. Many countries espouse gender equality in the workplace but find that progress in practice, particularly in senior roles, is slow. It would not be unreasonable to ask companies to make more progress on gender equity, say, as a condition of receiving further public funds.

Beyond this is the spectre of widespread homelessness when unemployment rises dramatically. The normal formula for rental agreements, which assumes fixed payments, could be replaced by a general provision which allows for rents to be adjusted downwards temporarily for those on low incomes.

Another set of issues concerns the economic environment. Value chains for some goods will probably shorten, and countries will try to be more self-sufficient with respect to some strategic goods and services. In the UK, several decades of agricultural policy effectively promoted production for these reasons, and similar questions are now being asked about the health and digital sectors. Should countries depend on IT infrastructures or core emergency medical supplies supplied substantially by companies located outside their borders? If not, then there are implications both for business support and labour markets.

Some have argued for a new Marshall-style plan for Europe, and one major priority here is a shift to low-carbon economies. Accelerating that shift could be a way to justify an expansion of major projects and provide additional employment. In some cases, such as the production of energy-efficient social housing, policies may address environmental and (fuel) poverty goals at the same time. When it comes to the taxes that finance public and publicly-provided goods and services, there is an argument that taxes should be paid to the jurisdictions in which consumers and employees live, though increasingly for the large digital corporations this is not happening. An OECD project is looking into this, but the growth of digital business during the lockdown provides additional impetus for resolving this particular disconnect.

We also made some observations about the decision-making process. Some economists, for example those in the World Bank, advocate community and public deliberation as a a way of identifying economic and social priorities. The experience of COVID-19 has raised the level of direct and immediate interaction between politicians and citizens, and this could help identify the social welfare function more accurately in the longer term. Some important insights from behavioural economics should not be ignored either. It is possible to point to several candidate examples of anchoring and adjustment – the tendency to anchor on a position and underestimate the need for change. Did the UK lock down too late and not hard enough, for example?

There are also significant questions about choosing relevant expertise for advisory committees. Would a broad-based approach including economics and other disciplines beyond public health serve to minimise the inevitable blindspots? Other approaches used in science may also be of interest to economists. For example, a group at Cambridge University recently used environmental scanning to identify some 275 ways in which transmission of COVID-19 might be disrupted. Debate about fiscal policy now seems to recognise the need to develop policies that address directly a range of human needs associated with employment, mental and physical health, education and housing. In doing so, it contributes to the Beyond GDP agenda, which highlights the need to focus on the ultimate human outcomes – from inequality to wellbeing – that arise from, and drive, economic activity.

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