

Beyond GDP. Measuring What Counts for Economic and Social Performance

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A review of Stieglitz J., Fitoussi J.-P., Duran M. *Beyond GDP. Measuring Economic Development and Social Progress*. OECD: Paris, 2018. 148 p.

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After the beginning of the Great Depression of the 20th century, an urgent need developed for adequate indicators to assess the state of the country's economy. Governments across different countries began to collect data needed to measure the amount of National Income (later Gross Domestic Product). The economic concept of Keynesianism¹ determines the level of economic production as a result of demand from different sectors of the economy. Therefore, government regulation should be aimed at maintaining full employment across the country. Economists Simon Kuznets² from the University of Pennsylvania (Kuznets 1955) and Richard Stone³ from the University of Cambridge (Stone 1984) were awarded the Nobel Prize for their contribution to the creation of a system of national accounts (SNA), which includes the macroeconomic indicator Gross Domestic Product (GDP) developed by Kuznets.

The crisis of 2008 and its consequences showed a drop in the level of GDP in all countries of the world. The consequences of the crisis were long, with significant costs that could not be accounted for in the accepted statistical methodology and calcula-

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¹ Keynes J. M. is an English economist and founder of the Keynesian direction in economic theory. Founder of macroeconomics as an independent science (Keynes 2007).

² Winner of the 1971 Nobel Prize in Economics "for an empirical interpretation of economic growth, which led to a new, deeper understanding of the economic and social structure and the development process as a whole."

tions. In most countries, GDP growth has returned to their pre-crisis level or close to it, but the economy will never return to a state in which it could have been in the absence of a crisis (Stiglitz, Fitoussi, Duran 2018: 14). In this regard, it is necessary to continue the development of a comprehensive system of indicators, in order to catch the harbingers of crisis and to take social aspects in the measures of state regulation of social and economic policy into account, and to prevent the possibility of a new large-scale recession.

New research by J. Stiglitz, J.P. Fitoussi and M. Durant was published as "Beyond GDP. Measuring economic development and social progress, published by the OECD in November 2018". This is a comprehensive study of an economic, statistical, social and political nature.

Joseph Y. Stiglitz – American economist, belonging to the neo-Keynesian school, was awarded the Nobel Prize in Economics in 2001 (together with American economists J. Akerlof and M. Spence) for analyzing markets with asymmetric information; that is, markets in which some participants have more information than others.

J.P. Fitoussi – French economist, professor of economics at the Institute for Political Studies in Paris.

M. Durant – Head of the Statistical Service of the Organization for Economic Cooperation and Development (OECD).

The purpose of the paper is to continue the development of a system of indicators of the welfare of society to prevent new large-scale crisis phenomena in socio-economic development based on adequate measures of state regulation.

The practical significance of the study by J. Stiglitz, J.P. Fitoussi and M. Durand is due to the fact that the presented recommendations are gradually being introduced into the work of national government bodies and statistical institutions, which allows a wider range of aspects of individual well-being to be taken into account and, accordingly, the right measures to support it to be accounted for too.

In 2009, the Stiglitz – Sen-Fitoussi Commission (hereinafter referred to as the Commission) presented the "Report on Measuring the Level of Economic Development and Social Progress" (hereinafter referred to as the Report). In this work, their critique of quantitative indicators of the level of economic development and social progress was set forth. Thus, the fact that the quality of life depends not only on the objective conditions in which a person lives, but also on his own abilities, was particularly emphasized. Furthermore, international and national statistical agencies, in one way or another, began to develop new, more qualitative indicators of social progress, in order to more accurately measure the quality of life.

In a new study of 2018, taking into account the recommendations of the Commission and the Report, the authors emphasize the relevance of having a system of indicators that reflect people's subjective perceptions of the most important life aspects, such as living conditions, health status, quality of education, participation in public life, social contacts, economic security, trust in the state, etc. (Stiglitz, Fitoussi, Duran 2018: 16).

J. Stiglitz, J.P. Fitoussi and M. Durand are of the position that the GDP indicator has many limitations. The paper argues, firstly, that on the basis of the growth of GDP (Simonova 2018: 509), it can be concluded that there are positive trends in a country's economy although the majority of citizens may not feel this in everyday life. Secondly, the desire to achieve GDP growth by any means significantly impairs the environment. Thirdly, the methodological problem of calculating the GDP indicator – measuring the cost of production of goods and services in the public sector, whose activity is usually estimated in accordance with the size of government spending – may overestimate the value of this indicator (Stiglitz, Fitoussi, Duran 2018: 33).

A High-Level Expert Group on measuring economic development and social progress (HLEG) based its study on the analysis and recommendations of the Commission. The authors note the need to actively introduce elements of economic theory into statistical practice due to the imperfection of modern statistical methodology used in research. A key thesis of the work of HLEG is the influence of measured indicators on the vector of political development. The absence of a certain aspect in statistical calculations can lead to the omission of a particular problem.

According to the authors, it is extremely difficult to display various aspects of social welfare, using only one numerical indicator. Since the indicator of GDP is used to measure production in the international methodology, it has been used as an indirect indicator of the level of economic development and well-being, as well as to describe the well-being of the population as a whole. Robert Kennedy expressed concern about an indicator such as GNP: "Our GNP ... includes air pollution, cigarette advertising and ambulances that carry victims in disasters ... But it does not take into account the health of our children, the quality of their education and the smiles on their faces"⁴.

Since GDP was not originally designed to solve this problem, the authors propose to move "beyond GDP", which is necessary to assess the state of the "health" of the country. The authors propose supplementing the value of the GDP indicator with a wider panel of indicators that can reflect the distribution of welfare in society and its sustainable development in social, economic and environmental dimensions. The problem is to make the system of indicators capacious and easy to understand, but at the same time sufficiently extensive to summarize all those aspects that are of greatest importance to society.

An important part of the work is a section on the measurement of economic recessions. Since many analysts did not want to go beyond the GDP volume indicator, the lack of quality indicators reflecting the lack of people's economic security made it impossible to measure the deeper effects of the recession. The fall in GDP that followed the crisis was not a short-term trend, as traditional macroeconomic models predicted.

⁴ Kennedy R.F. Remarks of Robert F. Kennedy at the University of Kansas, March 18, 1968. URL: http://glaserprogress.org/program_areas/pdf/Remarks_of_Robert_F_Kennedy.pdf (accessed 27.10.2019)

Its negative dynamics indicate a long-term loss of large amounts of capital – not only material, but also so-called “hidden capital”. For example, there was a widespread decline in on-the-job training (a problem for young people entering the labor market during the recession), and a decline in confidence in the economic system, which is intended to benefit only a limited number of people. There is a need for tools to effectively manage economic cycles, in order to avoid long periods of recession (Stiglitz, Fitoussi, Duran 2018: 53).

This chapter identifies that focusing only on government commitments when evaluating the performance of the public sector is a key shortcoming of traditional indicators. The authors mention the inability to adequately assess the entire amount of unused labor (which exceeds the official unemployment rate). For example, in the United States, where the unemployment rate dropped markedly after the crisis, the GDP level is much lower than it could have been without a crisis. The destruction of “hidden wealth” described by the authors in this chapter was one of the consequences of the 2008–2009 recession. This destruction will have long-term consequences, and it explains the difference between the state of the economy today and how it could be in the absence of a crisis. “Hidden wealth”, which determines the level of production in the future and its changes, should be understood as a concept and evaluated for the implementation of relevant policies (Stiglitz, Fitoussi, Duran 2018: 47). For example, a decline in productivity in the future can be minimized by controlling the distribution of limited production volumes that are observed during a crisis, as was done in Germany. But even those indicators that take into account changes in human, social and physical capital will not be enough to assess the consequences of a deep recession in society as a whole, its impact on people's behavior.

The authors argue that it is possible for governments to use incorrect statistical indicators that demonstrate economic recovery when most of the population did not experience improvements in their well-being; this partly contributed to the developing distrust towards state institutions as well as the growing discontent and anti-globalist sentiments that are observed today the world.

Another equally important part of the work is devoted to the main ideas to be followed developing upon the recommendations of the Commission; also areas that require methodological improvement and increased attention of statistical agencies, researchers and politicians are identified (Stiglitz, Fitoussi, Duran 2018: 98).

The UN Sustainable Development Goals (UN SDGs), which the global community agreed on in 2015, apparently go beyond “GDP”. From the point of view of researchers, 169 goals and over 200 indicators for “global monitoring” are excessive for determining the political vector. Countries will have to identify their priorities and improve national statistical methodologies and practices, which even in developed countries are currently not enough to monitor the implementation of SDGs. The global community should provide technical and methodological support to the statistical services of developing countries, especially in assessing global climate change processes or income distribution.

The next group of indicators, recommended by the authors, concerns income and wealth inequality. This aspect has a more significant role in political discussions today as compared to 2009. Nevertheless in a number of areas significant progress is still needed: for example, to measure income distribution processes, as well as to integrate various data sources that are adequate for accounting for income distribution, consumption, and welfare over individual level. When studying the problem of inequality, for example, it is necessary to use and analyze indicators of the difference between social groups (horizontal inequality). Among these are important indicators characterizing inequality within households, as well as the distribution of resources in them, which is especially important in the case of determining the level of well-being (Stiglitz, Fitoussi, Duran 2018: 51-53).

From the point of view of researchers, it is also important to include information on economic inequalities in national accounts. In official statistics, indicators of subjective well-being, which are extremely important for determining the intangible costs and benefits of government programs and political reforms, need to be revised. Currently, in many countries, official surveys reveal the level of this indicator.

The authors focus on the concept of "economic insecurity". This has been proposed to develop a system of indicators of economic insecurity. With their help, we can conduct a comprehensive and more reliable analysis of the degree of recession effects, take more radical measures to smooth out the negative impacts of the crisis, and improve the social security system. Deficiencies in the anti-crisis measures of government regulation were exacerbated by over-focusing on the effects government spending had on increasing government commitments, as such expenditures could take the form of investments that increase government assets and balance sheets and positively affect inter-sectoral balance sheets of countries. This affects the unemployment rate and the "unused" labor resources of a country (Stiglitz, Fitoussi, Duran 2018: 81-87).

Indicators of economic insecurity are a new area. Hacker defines economic insecurity as "the degree of an individual's or household's vulnerability to economic losses" (Hacker 2018). This includes such concepts as shocks, losses, and buffers. The authors propose developing a methodology for measuring the likelihood of an adverse event, as well as the negative economic consequences of the event. A set of protective measures to reduce negative consequences involves the sharing of official insurance against informal risks, accumulation as a type of self-support.

Much more effort is required to develop indicators showing shocks affecting people, as well as the "reserve reserves" available to them. The 2008 crisis reduced not only the level of people's economic security, but also their level of trust in the political system, which is associated with negative perception of crisis management. Loss of trust in each other and in institutions is a long-term legacy of the crisis, whose consequences contribute to the political upheavals that are observed throughout the world.

An important group of indicators is the measurement of the sustainability of economic, environmental and social development. This direction is a priority for researchers and, in particular, statisticians, demanding input from various disciplines

and approaches. The authors note the importance of introducing new indicators into the political process so well that the unrest of electoral cycles would not prevent their use (Stiglitz, Fitoussi, Duran 2018: 87-90).

This work also contains references to the experience of individual countries in order to illustrate how welfare indicators are used at different stages of the political cycle. In some countries (for example, in France and in Italy), national parliaments that distribute the state budget sought to improve statistical data, since incorrect indicators could lead to the undue allocation of budget funds. In other countries (for example, in New Zealand), the state treasury has played a leading role in developing a wider panel of statistical indicators covering issues of sustainable development, economic inequality and risks, as tools for planning measures for government reform or for providing expert assistance to other government departments. At the same time, in other countries, welfare indicators were used in policy practice to harmonize priorities and actions between government departments and administrative levels (for example, in Scotland) and to identify ways to achieve goals as quickly as possible (for example, in the United Kingdom).

The Commission's report "Inaccurate Measurement of Our Lives: Why the GDP Indicator Is Not True"⁵ not only created incentives for a number of researchers and national statistical agencies, but also helped to form a global movement that took the form of initiatives from parliamentary commissions, civil society, and central and local governments to use indicators that go beyond GDP when developing their policies. At the international level, the global forum "Statistics, Knowledge and Politics" was organized by the OECD, which brings together representatives of civil society, researchers, national statistical experts and civil servants to promote the Program "Beyond GDP". Conferences were held in Palermo (2004), in Istanbul (2007), in Buzan (2009), in New Delhi (2012), in Guadalajara (2015) and in Incheon (2018). In 2011, the OECD introduced a system of welfare measurement indicators. Also, in 2016, this organization developed a panel of indicators of household economic well-being to identify short-term changes in their living conditions, which can be compared with indicators of quarterly GDP growth. This comparison revealed significant differences between indicators at the household level and indicators across the economy. Similarly, the Statistical Office of the European Union (Eurostat) contributed to the work in this area (in particular, the INSEE-Eurostat project on measuring economic progress, welfare and sustainable development was initiated), through which a set of indicators was developed for measuring the quality of life (17 core indicators related to 9 areas) which are regularly used to monitor living conditions in EU member states⁶.

⁵ Stiglitz J.E., Sen A., Fitoussi J. Mismeasuring our lives: Why GDP doesn't add up. URL: <http://pdfalldogon.com/mismeasuring-our-lives-why-gdp-doesn-t-add-up-jean-paul-fitoussi-a-list-of-book-download-free.pdf> (accessed 27.10.2019)

⁶ Eurostat. Final report of the expert group on quality of life indicators. 2017. URL: <https://publications.europa.eu/en/publication-detail/-/publication/1c2fee3e-15d5-11e7-808e-01aa75ed71a1/language-en> (accessed 27.10.2019)

The following, however, is the main criticism we can provide of this study: the authors propose, in addition to the numerical indicator of GDP, applying additional indicators; these include the description and measurement of inequality across the population, sustainability, subjective well-being, trust, and so on. These fit not only into the system of quantitative change; qualitative indicators, such as various indicators of subjective well-being, trust, and some others, are subject to collection as a result of special surveys. For this it is necessary to develop statistical questionnaires to determine the characteristics of units of the population. Therefore, they are difficult to subject to statistical and econometric processing and analysis, as well as forecasting. Constructing one aggregate, in addition to or including GDP, is problematic at this stage. The system of collecting primary information organized in all countries must be fundamentally restructured, which requires large additional funds.

The authors conclude the book with general conclusions. Firstly, the book has started a transition from the inaccuracies of the methodology (assumptions and estimates concerning the new measurement system) to the whole movement, which today attracts researchers, policy analysts, statistical experts, international organizations and treasuries. A “dictionary” of new concepts and indicators has combined academic research and statistical practice, and this link needs to be maintained in the future.

Secondly, “using a more comprehensive, but capacious, dashboard of indicators, reflecting what we value as a society, would most likely lead to a more significant increase in GDP than that actually achieved by most countries after the crisis” (Stiglitz, Fitoussi, Duran 2018: 115). The authors argue that economic growth, which contributes to an increase in GDP but does not increase the well-being of most citizens, leads to environmental degradation and the depletion of natural resources, leads to the economy and the population as a whole becoming less protected (a fact that undermines trust in social institutions and society), provokes conflicts due to the unfair treatment of certain ethnic or racial groups; in other words, this is not real growth. Real growth, which should be at the center of our attention, is fair and sustainable growth.

The authors oppose a narrow approach to an economic system that does not take into account social and environmental development, as a system in which the factors of production are always used to the maximum extent, and where the only political goal is to maximize economic efficiency, producing more with less. The “Beyond GDP” program had such a global response because citizens and now, finally, economists realized that GDP itself is not an objective indicator of well-being, and that our economy serves as a means to achieve the goal of improving the well-being of all citizens.

Thirdly, researchers, practitioners, statisticians and policy makers should promote this program with very concrete practical actions. Despite the progress achieved, most of the Commission’s recommendations remain relevant today; in the future it will be possible to make further progress in their implementation.

In the light of the work done by HLEG, the authors present recommendations that are practical in terms of economic theory and statistics. These include the following provisions (Stiglitz, Fitoussi, Duran 2018: 118):

1. Creating a system of indicators of the population's material conditions and quality of life, as well as its inequality and sustainability, in order to assess the state of the population in different periods of economic cycles.

2. Ensuring the full independence of national statistical agencies, providing them with the resources to use the potential of big data. The international community should provide technical support to the statistical services of poor countries.

3. Providing statistical agencies with the opportunity to use data from tax services to account for changes in the upper limits of distribution; developing a methodology for analyzing the joint distribution of income, consumption and wealth.

4. Data should be disaggregated by age, gender, disability, sexual orientation, education, and other signs of social status to describe group differences in welfare; indicators to describe inequalities within households (for example, asset ownership and resource sharing, financial decision making) should be developed.

5. Integration of information on economic inequality into the System of National Accounts; the convergence of micro- and macroeconomic approaches with the aim of interpreting the distribution in society of the benefits of GDP growth.

6. Further recommendations concern the assessment of equality of opportunities, the use of administrative data on the development of generations; subjective well-being; the impact of the policy on the economic life of the population, its insecurity, available buffers, the adequacy of social insurance to key risks, and subjective assessments of insecurity.

7. The effectiveness of measures to ensure sustainability requires the development of full balance sheets of various institutional sectors, covering all their assets and liabilities, measuring the rent used to value assets, and improving human and environmental capital, vulnerability, and sustainability of all systems.

8. Improving the measurement of trust and other social norms through both general and specialized household surveys, as well as experimental representative samples of respondents that use the approaches of psychology and behavioral economics.

9. Confidential access of scientists and politicians to statistical and administrative data; ensuring equal conditions for all research groups.

10. To provide "better policies for a better life", welfare indicators should be used to inform decisions at all stages of the political process: setting priorities, measures and agreeing program objectives, analyzing the benefits and costs of different policy options, making budget and financial decisions, monitoring programs and their evaluation.

The applications of this work contain a list of developed and recommended indicators consisting of three groups (Stiglitz, Fitoussi, Duran 2018: 136-142).

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