

Oxfam America
Research Backgrounders

Measuring Economic Progress and Well-Being

How to move beyond GDP?

Heloisa Marone

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Series editor: Kimberly Pfeifer

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Introduction

First developed in the 1930s by a team of researchers led by the economist Simon Kuznets, the gross domestic product (GDP) measure was conceived in response to the recognition that limited and fragmented economic information posed a challenge to policymaking during the Great Depression.¹ As a measure of aggregate economic production, GDP was not designed to measure social welfare, take into account environmental costs of production, give a sense of how income is distributed, or indicate whether people live healthy and contented lives. GDP also says nothing about how the way we choose to produce today affects our ability to produce tomorrow.

Nonetheless, production measures such as GDP are often used as an indicator of progress and well-being. Nordhaus and Tobin undertook one of the first and most influential studies to point out the limitations of the gross national product (GNP) as a measure of progress and to present an alternative measure of economic welfare.²

However, policymakers are not always driven by a “blind obeisance to aggregate material ‘progress,’”³ as alleged by some GDP critics, when they choose to maximize economic growth at the expense of its possible damaging side effects. In fact, a growing GDP has been shown to have the potential of expanding employment opportunities and reducing poverty and inequality.

Although the shortcomings of GDP as a measure of progress are widely recognized, the challenges to conceptualizing and compiling effective and universally accepted measures of progress and well-being that go beyond production are many.

To begin with, the concept of progress is value-laden and may change over time or across cultures. It is also multidimensional: assessing progress requires tracking a select number of relevant indicators—either on their own or aggregated into a single one-dimensional index. Selecting indicators, weighting them, and determining methods of aggregation all require subjective judgment.

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1. Bureau of Economic Analysis (BEA), “GDP: One of the Great Inventions of the 20th Century” (January 2000).
 2. William Nordhaus and James Tobin, “Is Growth Obsolete?” in *The Measurement of Economic and Social Performance*, ed. Milton Moss, *Studies in Income and Wealth* 38 (New York: National Bureau of Economic Research, 1973), 509-564. The difference between GNP and GDP is that GNP considers what nationals of a country produce (irrespective of where they live) while GDP considers what residents of a country produce (irrespective of nationality). So the profits of a Japanese car plant in the US count toward Japanese GNP and US GDP, but not toward Japanese GDP or US GNP.
 3. Nordhaus and Tobin, “Is Growth Obsolete?”

The effectiveness of any measure of progress also depends on the availability and quality of data, which vary greatly between and within countries. The more encompassing the concept of progress, the smaller the number of countries and/or regions for which data exists that might allow for this measure to be operationalized in practice. Data limitations are also especially acute where the need to measure progress might be most pressing: in poor and developing countries. In fact, even when it comes to measuring GDP, which is a concept that is more than eight decades old, data is a problem for many poor and developing countries.

There is an ongoing debate among economists and policy makers whether efforts should concentrate on improving GDP as a measure, supplementing it, or replacing it altogether with more holistic measures of well-being. One of the arguments in favor of improving or supplementing GDP is that it is a well-established and widely recognized measure. Those who advocate replacing GDP altogether argue that GDP is a poor measure of welfare that distracts policymaking from focusing on what is really important for people's well-being.⁴ In the end, no measure will satisfy everyone, in part because all are imperfect: the Commission on the Measurement of Economic Performance and Social Progress (CMEPSP) maintains that any statistical measure derived from national accounts "will never provide a comprehensive indicator of well-being."⁵

This paper offers an overview of the long-standing debate about the use of GDP in measuring progress, paying particular attention to poverty and inequality as dimensions of progress. Poverty and inequality are acute problems in the world: according to the World Bank's latest figures, in 2005, close to half of the population of developing countries—approximately 40 percent of the world's population—was living under the poverty line of two dollars a day adjusted for purchasing power parity (PPP). The fact that two in five people on the globe are still desperately poor clearly throws up the challenge of progress. This Research Backgrounder is organized into five sections. The first, "Economic Growth and Poverty: The Growing Importance of Addressing Inequalities," presents some current trends on inequality and its importance for poverty alleviation. The next section, "GDP and Its Limitations as an Indicator of Progress and Well-Being," provides a general overview of the limitations of GDP as a measure of progress and well-being. This discussion is followed by the section "Alternative Measures of Progress," and the final section, "Questions for Discussion," proposes questions for discussion.

4. Yanne Goossens, *Alternative Progress Indicators to Gross Domestic Product (GDP) as a Means Towards Sustainable Development*, study requested by the European Parliament's Committee on the Environment, Public Health and Food Safety (European Parliament, 2007).

5. Commission on the Measurement of Economic Performance and Social Progress (CMEPSP), "Commission on the Measurement of Economic Performance and Social Progress—Issues Paper" (CMEPSP, 2008).

Economic growth and poverty: The growing importance of addressing inequalities

The economy of the group of developing economies, as defined by the International Monetary Fund (IMF), has grown significantly faster than the economy of the group of advanced economies since the early 1990s: adjusted for PPP, per capita GDP in developing countries grew about two times as fast as per capita GDP in advanced economies between 1990 and 2010.⁶ Substantial growth in the developing world has resulted in an overall advancement in human development, including improvement in education and health indicators, and income poverty reduction. A large number of empirical papers have found that absolute poverty—defined by the “\$/day” standard—tends to fall with economic growth and that in the long run growth is “good for the poor.”⁷ Inequality, however, can substantively affect how economic growth impacts the rate of poverty reduction.

Nonetheless, economists continue to debate what exactly recent poverty reduction trends look like. Different methodologies, datasets, and definitions of poverty—and even growth—can lead to different conclusions. Ravallion, for instance, points to important differences in coverage, definitions, and methods between the two most important sources of data used to measure income growth: the private consumption expenditure from national accounts and household surveys.⁸ Although a full discussion of this complex and highly technical debate is beyond the scope of this report, a brief review of two recent, prominent contributions to this debate may serve as a useful illustration of both the divergent methods used and the different conclusions generated.

Fundamentally, some researchers disagree about the strength of the evidence that seems to signal a decline in poverty in sub-Saharan Africa. Sala-i-Martin and Pinkovskiy argue that poverty rates on the continent have been declining quite rapidly since the 1990s, yet Ravallion is skeptical of aspects of their analysis.⁹ First, Ravallion says, focus on the poverty rate ignores that the number of poor

6. International Monetary Fund (IMF), *World Economic Outlook Databases (WEO)* (IMF, 2011).

7. David Dollar and Art Kraay, “Growth Is Good for the Poor,” *Journal of Economic Growth* 7, no. 3 (2001): 195-225.

8. Martin Ravallion, “Growth, Inequality and Poverty: Looking Beyond Averages,” *World Development* 29, no. 11 (November 2001): 1803-1815.

9. Xavier Sala-i-Martin and Maxim Pinkovskiy, “African Poverty Is Falling ... Much Faster Than You Think!” NBER Working Paper 15755 (February 2010); and Martin Ravallion, “Is African Poverty Falling?” Africa Can End Poverty blog, World Bank (March 5, 2010). <http://blogs.worldbank.org/africacan/is-african-poverty-falling> (accessed June 2011).

Africans has not in fact declined (the rate of poverty reduction has been lower than the rate of population growth). In response, Sala-i-Martin argues that we should care about rates—because they are what the Millennium Development Goals (MDGs) target.¹⁰ Second, the researchers differ in which poverty lines each considers the most appropriate and how much credence each puts in the available data and conclusions drawn from them. Ravallion points out that the downward “trend” in poverty observed since the mid-1990s by Sala-i-Martin and Pinkovskiy¹¹ is essentially an estimation of the relationship between GDP growth and inequality that is arrived at by relying on exceedingly few data points (only 18 sub-Saharan African countries have had more than one survey-based inequality estimate since 1995).¹² Ravallion concludes that there is not sufficient data to assure Sala-i-Martin and Pinkovskiy’s results.

Indeed, the fact that broad conclusions about poverty reduction trends in sub-Saharan Africa are based on severely limited survey data should give one pause.

Looking beneath broad, aggregate trends, Fosu points out that not all countries fit the general trend of poverty reduction over the past two decades; in fact, in some cases poverty has been reduced only marginally, and in a number of countries—such as Bolivia and Mongolia—its incidence has in fact increased. According to Fosu, only part of this differential performance with respect to poverty reduction can be attributed to growth rate differentials: income inequality emerges as a crucial mediating factor between economic growth and the extent to which it results in poverty reduction. The extent to which growth has reduced poverty clearly varies across cases and time periods. While Botswana has for instance grown at a much faster rate than Ghana, Fosu shows that Ghana has been much more successful at translating its relatively moderate growth into substantial poverty reduction. This difference, Fosu’s study states, can largely be explained by the difference in the levels of income inequality between the two countries.¹³

The importance of inequality as a mediator between growth and poverty reduction has been underlined by a series of studies.¹⁴ For example, even where, as in China, remarkable progress has been made in terms of poverty reduction,

10. Xavier Sala-i-Martin, “Response to Martin Ravallion and the World Bank,” Xavier Sala-i-Martin blog (April 18, 2010). <http://www.salaimartin.com/academics-and-books/65-altres/552-response-to-martin-ravallion-and-the-world-bank.html> (accessed June 2011).

11. Sala-i-Martin and Pinkovskiy, “African Poverty Is Falling,” pp.10.

12. Martin Ravallion, “Is African Poverty Falling?” Africa Can End Poverty blog, World Bank (March 5, 2010). <http://blogs.worldbank.org/africacan/is-african-poverty-falling> (accessed June 2011).

13. Augustin Kwasi Fosu, “Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence,” UNU-WIDER Working Paper (January 2011): 1-56

14. See Klaus Deininger and Lyn Squire, “A New Data Set Measuring Income Inequality,” *World Bank Economic Review* 10, no. 3 (1996): 565-591; Dollar and Kraay, “Growth Is Good for the Poor”; Francois Bourguignon, “The Growth Elasticity of Poverty Reduction: Explaining Heterogeneity Across Countries and Time Periods,” in *Inequality and Growth: Theory and Policy Implications*, eds. T. Eicher and S. Turnovsky (MIT Press, 2003); and Martin Ravallion and Shaohua Chen, “China’s (Uneven) Progress Against Poverty,” *Journal of Development Economics* 82 (2007): 1-42.

inequality is still considered an important hindrance to even better performance. Ravallion and Chen state that the impressive drop in China's poverty rate—from 53 percent to 8 percent between 1981 and 2001—was accompanied by a steep rise in national absolute income inequality.¹⁵ According to their estimates, China's absolute Gini Index rose dramatically between 1981 and 2001, with much of this increase taking place after 1990. Ravallion and Chen argue that this rise in income inequality “greatly dampened the impact of growth on poverty.”¹⁶ In fact, they estimate that China's poverty rate, as measured by Chinese national statistics, which currently draw the poverty line at PPP \$0.5 per day, would have dropped to 1.5 percent in 2001, less than 20 percent of the actual rate of 8 percent, had the rise in income inequality in rural areas in the 1980–2001 period not taken place. The study further indicates that China's high growth rates were not achieved on the back of increasing inequality; to test for that, the authors look at both national and provincial data and find no evidence that economic growth and inequality are positively correlated. The authors conclude that Chinese “provinces that saw a more rapid rise in inequality saw less progress against poverty.”¹⁷ They point out that income inequality affects poverty reduction through two channels: (1) it negatively affects the ability to grow (thereby likely negatively impacting the ability to tackle poverty), and (2) it makes poverty less responsive to whatever growth is achieved (because of the uneven distribution of the benefits of economic growth).

These channels have been extensively explored in the literature. Inequality in landholdings, human capital, and physical capital (the “stock” side to the “flow” side of the coin of inequality) may affect growth because such inequality may go hand in hand with market imperfections—for instance, in the credit market—that limit borrowing and investment.¹⁸ Inequality may also affect growth through the political process: a high degree of inequality increases the likelihood of social and political unrest, perhaps because of intense pressures for redistribution, which has a direct effect on investment decisions and growth.¹⁹

During the World Economic Forum in Davos in 2011, for instance, inequality was blamed for exacerbating political instability and the formation of financial assets

15. Ravallion and Chen, “China's (Uneven) Progress.”

16. *Ibid.*, 21.

17. *Ibid.*, 3.

18. Roland Benabou, “Inequality and Growth,” *NBER Macroeconomics Annual* (1996): 11–73; Robert J. Barro, “Inequality, Growth, and Investment,” NBER Working Paper Series (March 1999); and Dwayne Benjamin, Loren Brandt, and John Giles, “Inequality and Growth in Rural China: Does Higher Inequality Impede Growth?” IZA Discussion Paper Series (September 2006).

19. Alberto Alesina and Dani Rodrik, “Distribution Politics and Economic Growth,” *Quarterly Journal of Economics* 109 (1994): 465–490; Torsten Persson and Guido Tabellini, “Is Inequality Harmful for Growth? Theory and Evidence,” *American Economic Review* 84 (1994): 600–621; Alberto Alesina and Roberto Perotti, “Income Distribution, Political Instability and Investment,” *European Economic Review* 40 (1996): 1203–1228; Benabou, “Inequality and Growth”; and Barro, “Inequality, Growth, and Investment.”

bubbles.²⁰ Likewise, a recent IMF study²¹ finds that greater income inequality is associated with shorter growth cycles; an indication that inequality affects growth sustainability. One of the conclusions of this study is that “growth and inequality-reducing policies are likely to reinforce one another and help to establish the foundations for a sustainable expansion.”²²

Considering such channels through which inequality negatively affects poverty reduction, Ravallion and Chen conjecture that China will be unlikely to keep up with its 1980s rate of progress against poverty without tackling its rising income inequality.²³ Indeed, poverty and income inequality remain a concern in China: according to the United Nations, utilizing not Chinese national measures, but the UN’s standard of less than PPP \$1.25 per day, approximately 20 percent of the population lives in extreme poverty in China. At the same time, estimates put the share of total household wealth held by the richest 1 percent at between 40 percent and 60 percent in China. In response to the widening wealth and income gaps, the Chinese government has recently announced policy initiatives that include raising the exemption threshold for personal income tax payments, building low-income housing, and increasing minimum wages.²⁴

Bourguignon²⁵ likewise argues that addressing income inequality is as important as growth for poverty alleviation, but also notes an additional, finer point: optimal growth distribution strategies for poverty reduction are contingent on initial inequality and income conditions. Bourguignon states that “it is likely that changing the distribution is probably more important for middle-income and inequalitarian countries, while growth is probably more important, in relative terms, for low-income and egalitarian countries.”²⁶

Bourguignon’s findings are particularly relevant in the context of the past two decades of rapid growth in the developing world have resulted in the advancement of some previously low-income economies to the group of middle-income economies in which poverty nonetheless remains an issue.²⁷ According to Bourguignon’s findings, one would expect poverty rates to be more responsive to reductions of income inequality in these newly middle-income countries, placing a premium in inequality-reducing strategies.

20. Philip Aldrick, “Davos WEF 2011: Wealth Inequality Is the ‘Most Serious Challenge for the World,’” *The Telegraph*, January 26, 2011. <http://www.telegraph.co.uk/finance/financetopics/davos/8283310/Davos-WEF-2011-Wealth-inequality-is-the-most-serious-challenge-for-the-world.html> (accessed April/May 2011).

21. Andrew G. Berg and Jonathan D. Ostry, “Inequality and Unsustainable Growth: Two Sides of the Same Coin?” IMF Staff Discussion Papers (April 8, 2011): 1-19.

22. *Ibid.*, 16.

23. Ravallion and Chen, “China’s (Uneven) Progress.”

24. Jamil Anderlini, “China Tax Move to Narrow Wealth Gap,” *Financial Times*, April 21, 2011, 1.

25. Bourguignon, “Growth Elasticity of Poverty Reduction.”

26. *Ibid.*, 10.

27. Andy Sumner, “Global Poverty and the New Bottom Billion: What if Three-Quarters of the World’s Poor Live in Middle-Income Countries?” IDS Working Paper (November 2010).

Among the countries that have gone through this transition are China and India. China and India also have large numbers of poor people: approximately 50 percent of the world's poor. As a result of growth in China and India but also in other developing economies, most of the world's poor, whose number Sumner estimates around one billion in 2007–2008, no longer live in low-income economies. In fact, Sumner estimates that 72 percent of the world's poor live in middle-income countries. The 2007–2008 period contrasts greatly with the 1988–1990 period, when Sumner estimates that 93 percent of the world's poor lived in low-income countries.

Looking ahead, many policy makers who aim to reduce poverty in the developing world now face relatively higher levels of income per capita and in some cases higher degrees of inequality in both income and wealth.²⁸ Significantly reducing poverty going forward will thus likely be especially aided by an increased focus on addressing inequalities at the national level.

Addressing inequalities in both wealth and income is a challenge that is not unique to the developing world. Using 2000 data for 39 countries, Davies et al. estimate that at the global level the top 10 percent of households own 71 percent of the wealth.²⁹ In the US, income inequality has reached historical highs, and wealth inequality continues to rise. Saez calculates that the income share of the top decile has increased considerably in the 20 years between 1988 and 2008, reaching 49.7 percent in 2007: this is a record high in the data going back to since 1917.³⁰

The most recent trend is especially alarming. Wolff³¹ estimates that the wealth gap between the richest and the poorest households in the US rose sharply between 2007 and mid-2009; while the share of wealth of the top quintile grew from 85 to 87.7 percent, the bottom two quintiles saw their share of wealth dropping from 0.2 percent to -0.8 percent: i.e., as a group, the bottom 40 percent of US households hold no assets and are in fact in debt. Indeed, Wolff estimates that close to one in four households in the US had zero or negative net worth in mid-2009, compared with less than one in five in 2007. This shift reflects rising indebtedness and dropping home values.

28. Ravallion and Chen, "China's (Uneven) Progress."

29. James B. Davies, Susanna Sandstrom, Anthony B. Shorrocks, and Edward N. Wolff, "The Level and Distribution of Global Household Wealth," NBER Working Paper Series (November 2009).

30. Emmanuel Saez, "Striking It Richer: The Evolution of Top Incomes in the United States (Updated with 2008 Estimates)" (July 10, 2008), an updated version of "Striking It Richer: The Evolution of Top Incomes in the United States," *Pathways Magazine*, Stanford Center for the Study of Poverty and Inequality (Winter 2008), 6-7. <http://elsa.berkeley.edu/~saez/saez-USTopIncomes-2008.pdf> (accessed April/May 2011).

31. Edward Wolff, "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze—an Update to 2007," Levy Economics Institute Working Paper (March 2010): 1-58.

Inequality is not observed solely in income and wealth; it also affects a broad range of quality-of-life indicators. For instance, Pye et al. find evidence in Europe that poorer groups are more likely to live in areas of poorer environmental quality than other groups.³² Addressing such inequalities in human conditions is one of the recommendations of the CMEPSP.³³ The CMEPSP's 2009 report emphasizes that "inequalities in quality of life should be assessed across people, socio-economic groups, gender and generations, with special attention to inequalities that have risen more recently, such as those linked to immigration."

The rising concern over inequality and its impact on poverty alleviation, growth sustainability, and even political stability around the globe raises an important question: How can policy makers assure that future economic strategies take into consideration dimensions that go beyond wealth and income creation? Does such a re-thinking of the goal of "progress" call for alternative measures that goes beyond production? That going beyond GDP growth (and perhaps even "hard" measures of inequality and poverty) might be in order is strongly suggested by the sometimes marked divergence between subjective perception of well-being and macroeconomic indicators. That such perceptions furthermore vary with income should give further pause for thought. Peru's stellar average growth rate of 7.2 percent in the five-year period from 2005 to 2010, for instance, has been assessed very differently by Peruvians of different income groups. While close to 70 percent of the small group of very high-income Peruvians perceived the country to be "progressing," less than 30 percent of "bottom-income" earners (average income of \$365 per month or less), representing more than two-thirds of the population, shared this assessment.³⁴

Before reviewing some alternative measures of progress, the following section introduces the concept of GDP and discusses its limitations as a measure of welfare. The section also presents a brief review of some other indicators linked to economic well-being produced by standard national accounts.

32. Steve Pye, Ian Skinner, Nils Meyer-Ohlendorf, Anna Leipprand, Karen Lucas, and Roger Salmons, *Addressing the Social Dimensions of Environmental Policy*, policy briefing (European Commission, 2008).

33. CMEPSP, *Report of the Commission on the Measurement of Economic Performance and Social Progress* (CMEPSP, 2009).

34. Daniel Volberg and Gray Newman, *Peru: The Unfinished Agenda* (Morgan Stanley Research Latin America, 2011).

GDP and its limitations as an indicator of progress and well-being

The concept of GDP

GDP is a broad measure of aggregate economic activity. It can be measured using three approaches: the product approach, the expenditure approach, and the income approach. Each of these approaches yields the same result.

- The *product approach* measures GDP by aggregating “the market values of final goods and services newly produced within a nation during a fixed period of time.”³⁵
- The *expenditure approach* takes as its cue the fact that any good or service produced by an economy will also be purchased or used by someone; this approach thus measures GDP as “total spending on final goods and services produced within a nation during a specific period of time.”³⁶ In particular, it adds the four major categories of expenditures: consumption by domestic households, investment (which includes fixed business, residential,³⁷ and inventory investment), government purchases, and net exports (exports minus imports).
- The *income approach* measures GDP by summing up all incomes received in an economy during a specific period of time. These incomes include, among others, taxes paid to the government, corporate profits, and compensation of employees.³⁸

Limitations of GDP as a measure of progress and well-being

Five sets of limitations of GDP as a measure of progress and well-being can be identified:

- GDP only counts goods and services that are priced and sold in formal markets. On the one hand, using market values allows for the aggregation of

35. Andrew B. Abel and Ben S. Bernanke, *Macroeconomics*, 5th ed. (Pearson Addison Wesley, 2005).

36. *Ibid.*, 32.

37. Note that residential investment includes spending on the construction of new houses.

38. *Ibid.*, 32.

different products and services. On the other hand, there are many factors that contribute to people's well-being and reflect economic progress that are not priced and sold in formal markets, or whose value is not easily quantified in monetary terms; they are thus largely or even entirely omitted from GDP. Even in terms of measuring production and consumption, important activities are therefore not counted. These include "positives" such as unpaid services (e.g., child-rearing, housekeeping, and volunteer work) and informal and some self-sufficiency economic activities. Conversely, it might be questionable whether some activities that are counted should in fact be counted as "positive" contributors to economic progress (imagine an economy whose "growth" is largely a function of having to provide medical services to an increasingly sick population).

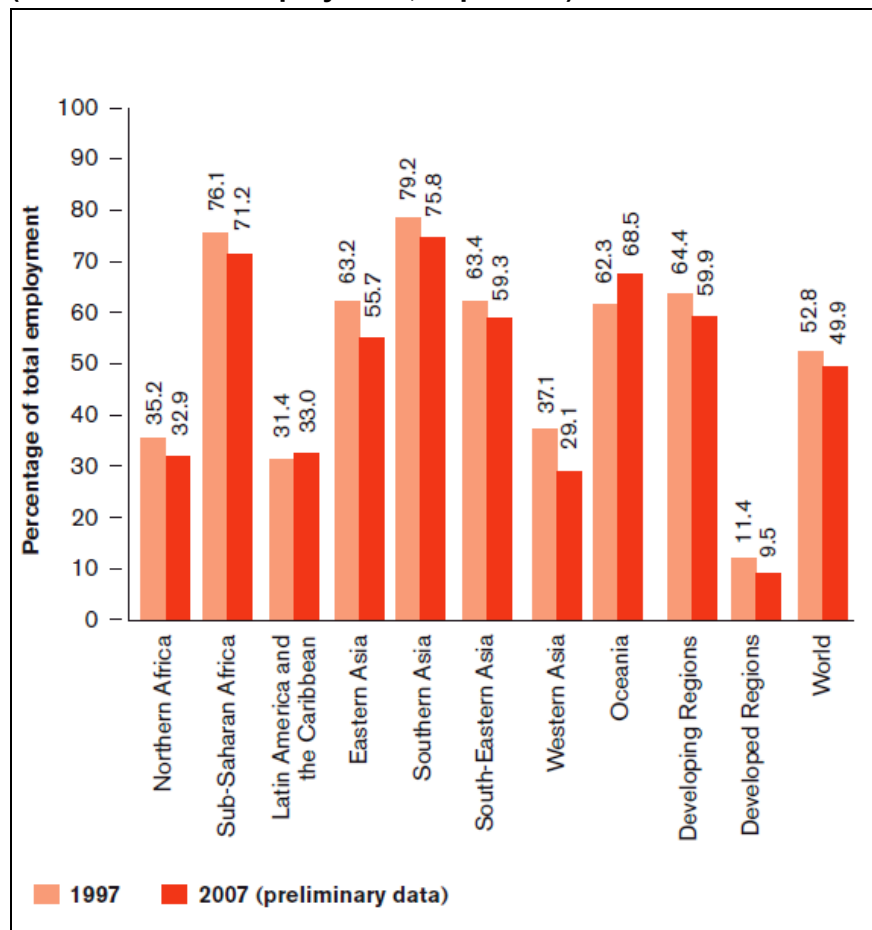
- Going beyond whether GDP counts the right "goods," it also has a problem with counting those "side-products" of production or consumption that are not bought or sold in a market. Air pollution (in the absence of permits or taxes) is an example of a negative version of such an externality; the broader benefits conferred by a good education are an example of a positive externality.
- GDP also does not register what might be loosely grouped together as broader "quality of life" issues: the level of violence in society, traffic congestion, active civic organizations, access to nature and public parks, and physical and mental health are pertinent examples.
- Nor does GDP, being a flow concept, register changes in asset values, although these can influence people's ability to consume and smooth fluctuations in their current income. Brandolini et al.,³⁹ for instance, review asset-based poverty measurements and argue that how living conditions of households are affected by a sudden drop in income earnings depends on the households' ability to draw on their real and financial asset holdings. The importance of wealth is likewise acknowledged in CMEPSP's⁴⁰ argument that increasing current well-being by spending wealth on consumption goods comes at the expense of future well-being and should therefore be taken into account.
- Finally, being a measure that aggregates economic activity at the country level, GDP has nothing direct to say about distribution and poverty.

39. Andrea Brandolini, Silvia Magri, and Timothy M. Smeeding, "Asset-Based Measurement of Poverty," *Journal of Policy Analysis and Management* 29, no. 2 (2010): 267-284.

40. CMEPSP, *Report of the Commission*.

Not counting economic activities that do not involve monetary transactions also reduces the GDP's utility when it comes to comparing the performance of richer and poorer economies. Although this measure only captures a part of the full reality of the informal economy, looking at the incidence of own-account – defined as “a person who operates his or her own economic enterprise, or engages independently in a profession or trade, and hires no employees,” according to the 1958 United National Statistical Commission⁴¹ –and contributing family workers, a joint ILO/WTO study⁴² suggests that informal employment varies substantially between developed and developing countries.

Figure 1. Own-account and contributing family workers, 1997 and 2007 (relative to total employment, in percent)



Source: Bachetta et al., 2009, figure 1.1., 26, based on MDG indicators available at : <http://mdgs.un.org>.

41. 1958 International Classification by Status in Employment. <http://laborsta.ilo.org/applv8/data/icsee.html> (accessed May 2012)
42. Marc Bacchetta, Ekkehard Ernst, and Juana P. Bustamante, “Globalization and Informal Jobs in Developing Countries” (International Labour Organization/World Trade Organization [ILO/WTO], 2009). http://www.wto.org/english/res_e/booksp_e/jobs_devel_countries_e.pdf (accessed April/May 2011).

Figure 1, from the joint ILO/WTO study, shows that, in 2007, own-account and contributing family workers in developing economies represented approximately 60 percent of total employment; this is in stark contrast to only 9.5 percent in developed economies. Even among developing countries, limited data shows that the informality rate varies significantly. Indeed, the ILO/WTO report suggests that informality rates can reach up to 90 percent in specific cases (e.g., 93.2 percent in India in 2004) or be as low as 30 percent in others (e.g., 32.6 percent in Chile in 2006). Because many such informal activities do not enter GDP data, such data substantially understates true economic activity, especially in poorer countries.

The use of market values to measure GDP may also not accurately reflect the true value to society of goods and services produced. For example, it is hard to assess the true value of government services such as public education. Some countries measure government services based on the input cost of production; for instance, the cost of teachers' salaries is part of the value of public education in the GDP in the US.⁴³ Input costs of education, however, are unlikely to reflect the true value of educating a child. Some countries, such as the United Kingdom, have changed the method of accounting for government services in the GDP by adopting direct measures of output; these adjustments, however, remain controversial.⁴⁴

Well-being also depends on natural resources and the environment. The finite availability of natural resources limits economic expansion. By continuing to ignore this limitation now, society imposes economic, social, and human costs on—perhaps not so distant—future generations. While revenue from nonrenewable natural resources exploration is counted in the GDP, natural resources depletion, which is in fact a negative inventory investment, is not. Similarly, there are externalities from growth that are associated with environmental degradation (e.g., water pollution, air quality) that do not enter in the GDP because many of these externalities have no price. That such exploitation does not enter into the most common measure of economic progress is especially problematic because of its distributional impact. Future generations and the poor reap few of the benefits of today's overexploitation of natural resources, but they bear a significant, and perhaps far more than proportional, share of the costs.

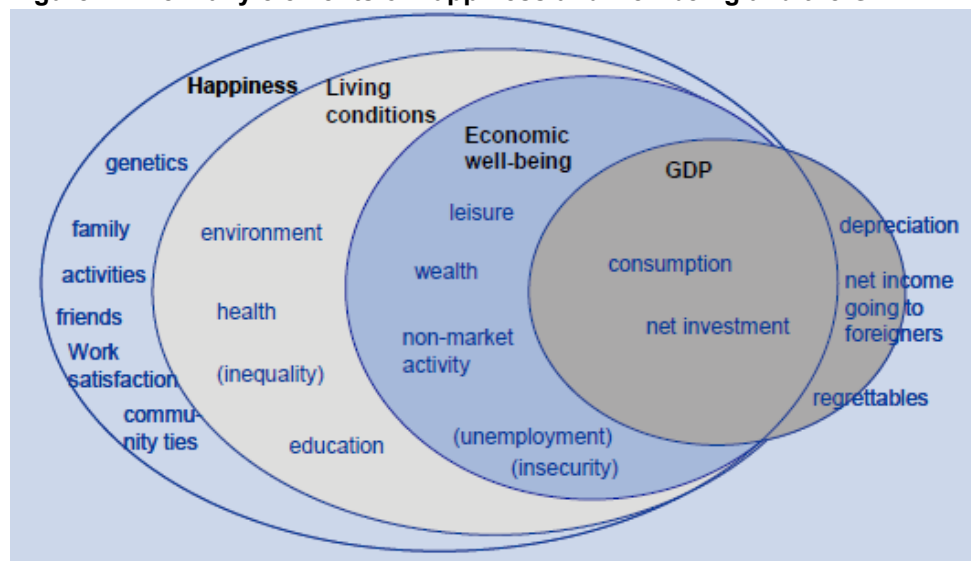
43. Abel and Bernanke, *Macroeconomics*.

44. Enrico Giovannini, Jon Hall, and Marco Mira d'Ercole, *Measuring Well-Being and Societal Progress* (Organisation for Economic Co-operation and Development [OECD], 2007).

As noted, GDP does not directly tell us about poverty and distributional issues. In fact, the higher the level of inequality, the less telling the statistical average “GDP per capita” is as a measure of individuals’ economic well-being—because greater inequality means that individuals are further away from average.⁴⁵ Although there is evidence that GDP correlates with levels of poverty, this relationship is mediated by many factors and is far from linear (see the preceding section of this report). Further complications arise when “poverty” is measured in a more complex way than defining it simply as falling below a particular income level. The UNDP, for instance, defines the concept as the denial of “opportunities and choices most basic to human development,” such as the opportunity “for living a tolerable life.”⁴⁶ The correlation between such a conceptualization of poverty and GDP is likely to be even more tenuous than when poverty is simply defined by income level.

Subjective indicators of well-being, such self-reported happiness levels, do not necessarily correlate with levels of income either. Using data from the United States from 1946 to 1970, Easterlin was one of the first to show that higher income does not systematically corresponds to greater happiness, a finding that became known as the Easterlin paradox.⁴⁷

Figure 2. The many elements of happiness and well-being and the GDP



Source: Bergheim 2006, 3 (Deutsche Bank research). As indicated by the original source in Bergheim 2006, brackets indicate negative impact.

45. CMEPSP, “Issues Paper” (2008).

46. United Nations Development Programme (UNDP), *Human Development Report 1997: Human Development to Eradicate Poverty* (UNDP, 1997).

47. Richard A. Easterlin, “Does Economic Growth Improve the Human Lot?” in *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz*, ed. Paul A. David and Melvin W. Reder (Academic Press, 1974).

The illustration in Figure 2, from Bergheim,⁴⁸ usefully maps out how GDP might relate to a family of concepts from “economic well-being,” to “living conditions” and “happiness.”

Despite these limitations of GDP as a measure of progress and well-being, it is important to recognize that it is widely understood and used. While GDP and GDP growth can be (and often are) conducive to “economic progress” more broadly understood, the extent to which this is true depends on context—which in turn is significantly shaped by policy.

It may thus be worth thinking about how such dimensions of “economic progress,” that go beyond GDP, could be highlighted more effectively in measures that could be targeted by policy.

Other standard national account approaches

Several standard national account approaches differ slightly from GDP and include or emphasize different aspects of economic activity. Afsa et al. note that these approaches can be useful as stand-alone indicators or as points of departure for alternative indices of well-being.⁴⁹ These measures include:

- *Gross national income (GNI)*. The key difference between GNI and GDP is that GNI adjusts GDP for income that is transferred to nonresidents through wages, dividends, and interest payments. Formally, GNI is GDP plus the income received by residents living abroad minus the income created by the production in the country but transferred to nonresidents.⁵⁰
- *Net domestic product (NDP)*. This measure subtracts consumption of fixed capital (i.e., “wear and tear”) from GDP.⁵¹
- *Household final consumption expenditure*. In contrast to GDP, this measure includes only household purchases for final consumption of “food, clothing, housing services (rents), energy, durables goods (notably cars), spending on health, on leisure and on miscellaneous services.”⁵²
- *Household disposable income*. Household disposable income is “the sum of household final consumption expenditure and saving.”⁵³

48. Stefan Bergheim, *Measures of Well-Being: There Is More to It Than GDP*, Current Issues (Deutsche Bank Research, 2006).

49. Cedric Afsa et al., *Survey of Existing Approaches to Measuring Socio-Economic Progress*, paper for the Commission on the Measurement of Economic Performance and Social Progress (Insee-OECD, 2008).

50. Francois Lequiller and Derek Blades, *Understanding National Accounts* (OECD, 2006).

51. *Ibid.*, 19.

52. *Ibid.*, 24.

53. *Ibid.*, 156.

Alternative measures of progress

Timeline and overview

Since the early 1970s it has been well recognized that standard measures of economic progress fail to account for the environmental costs of growth and fail to present a balanced measure of economic and social aspects of human progress. Nordhaus and Tobin's⁵⁴ proposal to develop a measure of economic welfare (MEW) that was based on GDP and corrected for some of its limitations became one of the most influential attempts to remedy these shortcomings at the time.

It was only in the 1990s that renewed interest in alternatives or complements to GDP led to the compilation of the United Nations' Human Development Index (HDI). This index grew out of the economist Amartya Sen's work. Since then, the number of alternative measures of progress and well-being have proliferated.

In late 2000, the leaders of the 189 member countries of the United Nations signed a declaration to pursue eight Millennium Development Goals (MDGs), committing to a global partnership to reduce extreme poverty. Despite many controversies around the MDGs, these goals recognize that ending poverty involves more than just increasing incomes of the poor; these goals have significantly shaped the development community's efforts against poverty for the past 10 years.

More recently, in 2008, French President Nicholas Sarkozy invited professors Joseph Stiglitz (president of the commission), Amartya Sen (adviser), and Jean Paul Fitoussi (coordinator) to create what became known as the Commission on the Measurement of Economic Performance and Social Progress (CMEPSP). This commission published a report in 2009 that contained a detailed study of the limitations of GDP as a measure of economic and social progress, a discussion of what else would need to be measured and how, and an assessment of the feasibility of alternative measures of progress. Driving this initiative was the belief that statistical indicators serve as important guides for effective policy making; if indicators that policy makers focus on are flawed, decisions risk being distorted and statistics that dominate policy discussions will not be representative of people's perceptions about their own conditions. Indeed, the report maintains that the financial crisis of 2008 came as a surprise to many in

54. Nordhaus and Tobin, "Is Growth Obsolete?"

part because the commonly used measures of progress focused governments and market participants on the wrong set of indicators.⁵⁵

Although there is a consensus that measures of progress should go beyond production, the many challenges in compiling alternative measures of well-being are numerous. There is, for instance, a general lack of agreement regarding what constitutes well-being for a given region at a given time or how to measure it properly. The availability of data is also a concern.⁵⁶

Current efforts to construct objective measures of well-being that go beyond the GDP range from attempts to substantially “correct” the measure itself to supplementing or perhaps replacing it with other measures. Some of the dimensions of “progress” that the GDP fails to capture, such as the impact of growth on the environment, could potentially be included in an amended measure of GDP through more complex accounting. Several measures have thus attempted to “correct” GDP by proposing monetary evaluations of factors that one wishes to exclude from or include in GDP accounting. The main challenge of this approach is often the difficulty of quantifying and monetizing relevant factors, while the main advantage is that it is a natural extension of national accounts practices.

Where dimensions of progress cannot be easily monetized and directly folded into “amended” GDP measures, supplementary or alternative measures might be called for. Here, two options present themselves. The first is to construct a composite index that attempts to capture the many dimensions of well-being. A composite index is a weighted aggregate of elementary indices that represent the various dimensions of what the composite index is supposed to measure (e.g., human development, environmental sustainability, etc.). The subjectivity involved in selecting, weighting, and aggregating elementary components of a composite index is seen as a limitation of this approach.

A second option is to compile information on various dimensions of progress in a disaggregate “dashboard” (or set) of indicators. The use of dashboard indicators has a long history: in the 1970s, for instance, the Organisation for Economic Co-operation and Development (OECD) initiated a program that aimed at collecting official statistical information to monitor social trends. However, by the 1980s, these efforts were significantly reduced as the focus shifted back to GDP growth.⁵⁷ Afssa et al. also report that support for the

55. CMEPSP, *Report of the Commission*.

56. Goossens, *Alternative Progress Indicators*.

57. Afssa et al., *Survey of Existing Approaches*.

collection and publication of social indicators dropped with the realization that these indicators were not mobilizing public opinion and policy action.⁵⁸

Dashboard indicators became popular again starting in the 1990s in the formulation of specific policies. On the one hand, dashboards provide a large amount of information that may thus be useful to policymakers and advocates while avoiding the fraught process of aggregation involved in the construction of composite indices. On the other hand, the large amount of disaggregate information does not allow for easy comparisons across countries or time, which makes measuring trends of social progress quite difficult and may also diminish the political “punch” of such measures.

Select measures of progress in detail⁵⁹

Select indicators “correcting” the GDP

- *Measure of Economic Welfare (MEW)*. The MEW was proposed by Nordhaus and Tobin.⁶⁰ It attempts to capture direct consumption benefits—which, for instance, leads it to include imputed benefits of health care, education, and leisure, and to subtract negative externalities such as “disamenities” associated with urban life and work.⁶¹ Likewise, it excludes from the measure any expenditures that are imputed to be non-final consumption related. Criticisms of MEW include the arguments that corrections to the GDP are arbitrary, that the system provides little focus on welfare distribution, that health services are considered intermediate output and excluded from national output, and that wages are used as a reference in the monetization of leisure.
- *Genuine Progress Indicator (GPI)*. The GPI was developed by the nonprofit Redefining Progress in 1994.⁶² It adjusts personal consumption expenditures (which are counted in the GDP) by income distribution; it also subtracts from expenditures those associated with crime, social costs (such as expenditures arising from divorce), depreciation of environmental assets (e.g., stocks of fossil fuels), and even costs associated with indebtedness. It adds to GDP the value of time spent on household work, parenting, and volunteer work; the imputed benefit, beyond cost of acquisition, of consumer goods (e.g.,

58. Ibid.

59. See Romina Bandura, “A Survey of Composite Indices Measuring Country Performance: 2008 Update,” UNDP Development Studies Research Papers (UNDP, February 2008), for a detailed list of 178 alternative indicators of country performance including those discussed in this paper. http://www.undp.org/developmentstudies/docs/indices_2008_bandura.pdf (accessed May 2011).

60. Nordhaus and Tobin, *Is Growth Obsolete?*

61. Ibid.

62. Clifford Cobb, Gary Sue Goodman, and Mathis Wackernagel, “Why Bigger Isn’t Better: The Genuine Progress Indicator—1999 Update” (Redefining Progress, November 1999). <http://www.nber.org/~rosenbla/econ302/lecture/GPI-GDP/gpi1999.pdf> (accessed April/May 2011).

refrigerators) and services (e.g., highways). Although the method of monetization of factors such as crime and divorce are debated, the GPI, like the Index of Economic Well-being (discussed in the next section on alternative composite indices and dashboards of “progress”), accounts for the intergeneration effect of growth based on debt and depletion of natural assets: “While we have added to future generations’ debt burden by failing to reinvest in business and borrowing from foreign countries, increased consumption has also depleted the legacy of natural assets that will be inherited by our children.”⁶³

Alternative composite indices and dashboards of “progress”

- *Human Development Index (HDI)*. The HDI is perhaps the best-known example of a composite index. It combines relative measures of income per capita (in PPP terms), life expectancy at birth, and educational attainment.⁶⁴ These three indicators represent three basic dimensions of human development that the HDI seeks to capture: the ability of an individual to live a long and healthy life, to access knowledge, and to have a decent standard of living. Country coverage is limited by data availability. The computational method of the HDI has recently been revised.⁶⁵ Critics of the HDI point to its limited scope (e.g., it does not include ecological or political issues), its limited data quality and availability, and its mixing of stock and flows variables (e.g., GDP per capita is a flow variable, while level of education is a stock). A further major drawback is that it does not capture inequality within its units of measurements, that is, within national economies.⁶⁶
- *Inequality-Adjusted Human Development Index (IHDI)*. The IHDI was first introduced in the 2010 UNDP *Human Development Report*. It adjusts each constitutive dimension of the index for inequality within a country’s population.⁶⁷
- *Multidimensional Poverty Index (MPI)*. The MPI seeks to indicate what share of the population is “poor” as measured by several indicators in the areas of health (child mortality and nutrition), education (years of schooling and child enrollment), and standard of living (access to electricity, drinking water, sanitation, type flooring in dwellings, cooking fuel, and the ownership of particular types and numbers of assets). This index is sensitive to the depth of

63. Ibid., 11.

64. UNDP, *Human Development Report 2010. The Real Wealth of Nations: Pathways to Human Development* (UNDP, 2010).

65. Ibid.

66. Izete Bagolin, “Human Development Index (HDI)—A Poor Representation of the Human Development Approach” (2004). <http://www-3.unipv.it/deontica/ca2004/papers/bagolin.pdf> (accessed April/May 2011); and Goossens, *Alternative Progress Indicators*.

67. UNDP, *Human Development Report 2010*.

deprivation faced by individuals.⁶⁸ One of the main criticisms of the MPI is that it requires the selection of a number of indicators and the aggregation of these indicators into a unidimensional index. Both processes are subject to arbitrariness; there is no consensus on which dimensions of poverty one should consider or what weights each of these dimensions should be assigned to compile the composite index. Assigning weights is an exercise that requires ranking and comparing deprivations: How does the death of a child compare to not owning more than one radio?⁶⁹

- *Happy Planet Index (HPI)*. The HPI is compiled by the new economics foundation (nef) and was launched in 2006. It combines measures of life satisfaction and life expectancy with environmental efficiency (measured by ecological footprint). The main goal of this index is to compare how countries balance attainment of well-being and the use of natural resources. According to nef, the HPI for OECD countries was higher in 1961 than in 2005 despite an increase of 15 percent in the combined measure of life expectancy and life satisfaction during the 45-year period. The drop in HPI was driven by the increase in the ecological footprints per capita of 72 percent during the same period.⁷⁰ One of the greatest challenges of this index is that life satisfaction is a very subjective indicator that may not be easily affected by public policy.⁷¹
- *Index of Economic Well-being (IEWB)*. The IEWB was first designed by Osberg and Sharpe in 1998 and based on the earlier work of Osberg in 1985.⁷² The Center for the Study of Living Standards has published it for Canada and other OECD countries since 1998. It comprises four components: per capita consumption flows (e.g., consumption of market goods and services, per capita flows of household production, leisure, and other non-marketed goods and services); net accumulation of stocks of productive resources (e.g., tangible capital, housing stocks, consumer durables, environmental costs, the value of natural resources stocks, net change in level of foreign indebtedness); income distribution (e.g., intensity of poverty [incidence and depth] and income inequality); and economic insecurity (e.g., job loss, unemployment, illness, poverty in old age).
- *Quality of Life Index*. The Quality of Life Index was developed by the Economist Intelligence Unit (EIU) and combines subjective and objective

68. Ibid. and Sabina Alkire and Maria Emma Santos, "Multidimensional Poverty Index" in *Oxford Poverty & Human Development Initiative* (University of Oxford: July 2010). <http://www.ophi.org.uk/wp-content/uploads/OPHI-MPI-Brief.pdf> (accessed April/May 2011).

69. Ravallion and Chen, "China's (Uneven) Progress."

70. new economics foundation (nef), *The Happy Planet Index 2.0: Why Good Lives Don't Have to Cost the Earth* (nef, 2009).

71. Goossens, *Alternative Progress Indicators*.

72. Lars Osberg and Andrew Sharpe, "The Index of Economic Well-Being: An Overview" (2001). <http://myweb.dal.ca/osberg/classification/well-being%20index/The%20Index%20of%20Economic%20Well-being/The%20index%20of%20Economic%20Well-Being.pdf> (accessed May 2011).

measures of life satisfaction. For 2005, it was calculated for 111 countries. The index is composed of measures of material well-being (GDP per person in PPP terms), health (life expectancy at birth), political stability and security (political stability and security ratings compiled by the EIU), family life (divorce rate), community life (measured by church attendance or trade union membership), climate and geography (latitude), job security (unemployment rate), political freedom (average of indices of political and civil liberties), and gender equality (ratio of average male and female earnings). In 2005, Ireland, Switzerland, and Norway topped the index, while Tanzania, Haiti, and Zimbabwe came in at the bottom.⁷³

- *Gender Inequality Index (GII)*. The GII was first introduced in the 2010 UNDP *Human Development Report*. It replaces the Gender Development Index and Gender Empowerment Measure of earlier reports. It seeks to capture three dimensions in gender equality: reproductive health (through the indicators of maternal mortality ratio and adolescent fertility rate), empowerment (through share of parliamentary seats held by each sex and attainment of secondary and higher education), and the labor market (through the labor market participation rate). The index gives a measure of inequality between men and women.⁷⁴ According to the UNDP, this index cannot capture other relevant dimensions of gender inequality because of data availability; these dimensions include unpaid work, the impact of caregiving and housekeeping in leisure time, and gender-based violence, among others.⁷⁵
- *The EU Sustainable Development Indicators (SDIs)*. The EU SDIs comprise more than 100 indicators capturing 10 dimensions of “development” that include social-economic development, public health, and social inclusion. The SDIs, used to track the EU’s Sustainable Development Strategy, are published every two years. The SDIs are a dashboard of indicators; they do not constitute an index and they therefore do not offer an easy way to assess overall progress or make comparisons between countries.
- *Millennium Development Goals (MDGs)*. Progress toward the MDGs, established in 2000 with the aim of attaining them by 2015, is measured through 48 indicators from the domains poverty, hunger, education, gender equality, health, environment, and development assistance.⁷⁶ Another example of a dashboard indicator, MDGs focus specifically on developing countries.

73. Economist Intelligence Unit (EIU), “The World in 2005: The Economist Intelligence Unit’s Quality-of-Life Index” (2005). http://www.economist.com/media/pdf/QUALITY_OF_LIFE.pdf (accessed May 2011).

74. UNDP, *Human Development Report 2010*.

75. Ibid.

76. For a complete list of the 48 indicators, go to <http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Indicators/OfficialList.htm>.

Questions for discussion

It is widely recognized that GDP and other measures of production are poorly designed to measure well-being or social progress. In fact, GDP growth is not even unambiguously associated with advances in the level of well-being. GDP was never designed to measure well-being, but GDP growth continues to be the most widely referenced shorthand for progress. There is perhaps an excessive focus on GDP growth, and in particular on short-term GDP growth, which often does not translate in an increase in well-being for large sections of society—or indeed for society in the aggregate.

In fact, one of the motivations behind the creation of the CMEPSP in 2008 was the concern that there was a growing gap between what commonly used indicators of “progress” suggested and what people themselves perceived to be their condition. GDP per capita has become especially problematic as a measure of societal well-being in a context of dramatically increasing inequalities.

The following eight clusters of questions may help chart a way forward:

Question 1: How ought “progress” be defined and what dimensions of performance ought to be included in a measure of it?

Key dimensions of “progress” that go beyond GDP and have emerged as the focus of attempts to formulate alternative measures include the following:

- Distribution and especially the distributional position of poor people in society (“poverty”);
- Control over assets, and not just income;
- Impact of economic activity on the environment and natural resource endowments;
- “Result-” and “outcome-” oriented measures (health, educational achievement, “happiness”) instead of just measures of spending; and
- Other “intangibles” such as societal peace and gender equality.

The CMEPSP considered many of these issues and surveyed existing options for measuring such dimensions of progress.⁷⁷ It is a key background document for any discussion of this set of questions.

Question 2: How is the technical issue of designing a measure best resolved, taking into account (a) data availability, (b) desirable features such as comparability, comprehensiveness, and broad agreeability, (c) use as a target for policies, (d) costs of establishing a new system, and (e) usefulness as a focus for mobilization and advocacy?

Data availability is a challenge even for “standard” measures such as income. For other seemingly straightforward and measurable dimensions of progress (e.g., distribution), reliable data is often not collected, especially in poorer countries. For yet other dimensions, real problems of measurement arise (e.g., gender equality). On the front of data availability, balancing the requirement of broad data availability and the costs associated with collecting it with the desire to develop a measure that might provide a comprehensive view of progress is needed. Paying attention to the collection of data may loosen this constraint.

Trade-offs might likewise exist between other desirable features of a measure of progress:

- Comprehensiveness and broad agreeability (across political positions, countries, and cultures) may sometimes be at loggerheads; and
- Maximizing a measure’s utility as a target for policy would likely make fine-grained and specific data, as may be included in a dashboard, desirable, but may not make for easy comparability across time and space nor for a good focus for mobilization and advocacy.

Given such multiple trade-offs, an approach akin to the one adopted by the UNDP’s HDRs, which report on a central, composite index, as well as offering more fine-grained supplementary assessments, might be the most appropriate.

Question 3: How might the process of formulating such a measure be made inclusive of key stakeholders, such as poor people, minorities, and future generations, who often lack a voice in such processes?

An interesting initiative that may feed into a discussion of this question is the OECD’s launch on May 24, 2011, of an interactive tool that will allow people to register what makes their life better. This project, known as the “Better Life

77. CMEPSP, *Report of the Commission*.

Initiative” (see the Appendix for more details), aims to give people a chance to democratically design a “better life index.”⁷⁸

Question 4: What questions about global equity would an alternative measure raise and how are these to be handled?

This issue has arisen most forcefully around the question of environmental accounting. For instance, if CO₂ intensity of an economy were to be counted as a liability in national income accounting, this would substantially discount carbon-intensive economies’ progress. Policy measures such as emission quotas, taking their cue from such a measure of progress, have raised major equity concerns: they are often argued to close off avenues for growth that were exploited to the fullest by today’s industrialized nations to those who still seek to industrialize.

When it comes to designing measures, such concerns might ultimately severely undermine a measure’s relevance for policymaking—a possibility that must be carefully considered.

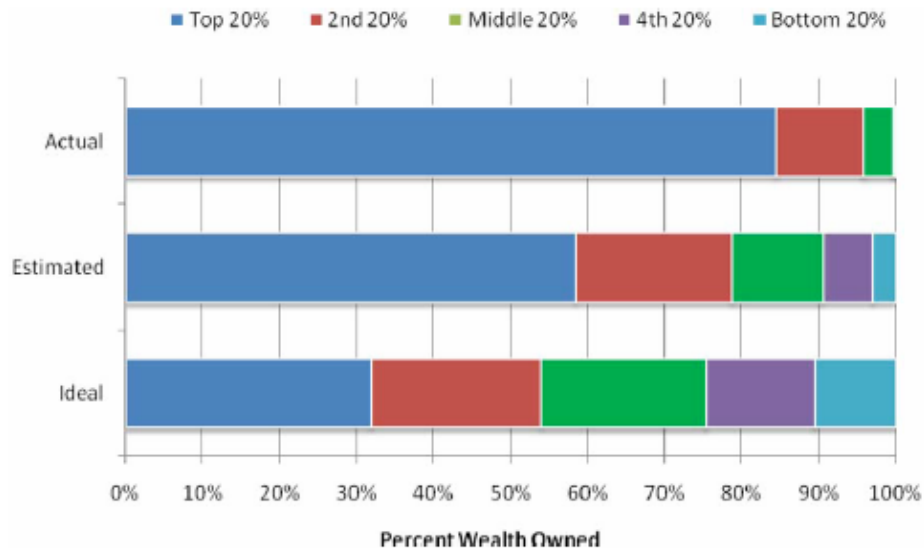
Many alternative measures will implicitly or explicitly raise the question of whether a more egalitarian world can have as its goal the lifestyle of a typical American consumer. If it cannot, building public support for ideals other than maximum consumption in an era where striving for it has been considered a sacrosanct right would seem to be imperative. Ultimately, moving from rethinking progress to actually progressing differently will thus require working toward a change in values. Strategies for doing so effectively need to be considered.

It may be noted in this context that what is often thought to be staunch popular opposition in the US to a more egalitarian distribution of wealth is apparently based on popularly held misconceptions. When Americans are asked what an ideal distribution of wealth in the US would be, they prefer a more egalitarian society than they believe to exist in the US today.⁷⁹ But they in fact think that the US is far more equal than it actually is (Figure 3). If they knew the true extent of inequality in the US, might they discover a commitment to aligning reality with their expressed values? To extrapolate from this interesting study: factual education might go a long way toward aligning willingness to take action with existing values.

78. OECD, *Better Life Initiative: Your Better Life Index* (2011). http://www.oecd.org/document/35/0,3746,en_21571361_46558043_47837411_1_1_1_1,00.html (accessed May 2011).

79. Michael I. Norton and Dan Ariely, “Building a Better America—One Wealth Quintile at a Time,” *Perspectives on Psychological Science* 6, no. 1 (2011) 9-12.

Figure 3. Wealth distribution in the US: Actual versus estimated and ideal



Source: Norton and Ariely 2011, 13: "Because of their small percentage share of total wealth, both the "4th 20%" value (0.2%) and the "Bottom 20%" value (0.1%) are not visible in the "Actual" distribution.

Question 5: What strategies are available for moving such a measure into the public eye and garnering greater attention to it from policy makers?

- As the above discussion shows, there is no shortage of amended or alternative measures of progress. However, few have gained broader currency (the HDI is perhaps the only exception) and none have come close to rivaling GDP as the pre-eminent measure of progress in public discourse and policy debates. What might be required to promote the adoption of alternative measures? One might imagine initiatives in education and perhaps referencing of alternative measures as benchmarks for investment, aid, and development assistance.
- Supplanting the current focus on market-based monetary value in economic decision-making faces clear challenges. But certain openings might also be present. Discounting mechanisms (for resource depletion or future costs) are well established, for instance. Environmental and even social effects can be thought of as having likely future monetary effects as well, and paying closer attention to discounting present returns of investments for such costs might indeed be thought of as a more rational way of assessing even strictly monetary value. Consider, for instance, the health care costs associated with air pollution, the disruption to economic activity resulting from civil strife

and climate variability, or even the intermediate-term effects of short-term profit seeking in the 2008 financial crisis.

- A shortsighted or partial perspective on monetary value may indeed be counterproductive even for the narrow goal of maximizing such value. For instance, the CMEPSP blames governments' and market participants' excessive focus on the wrong kind of measures for their inability to foresee the unsustainability of the world economy's path that was suddenly revealed in the financial crises of 2008.⁸⁰ Whether such measures might garner greater attention in economic decision-making crucially depends on incentive structures. These structures are shaped by regulations (e.g., designing appropriate reward systems in the financial industry or making the cost of pollution felt through taxes or permits), but are also a function of values (as are for instance manifest in the interest in socially and environmentally sound conscious investment products, fair trade, and campaigns for and codes of corporate responsibility). These areas are all ones where alternative measures of progress might find quick uptake.
- One key focus should likely be how such a measure might be institutionally anchored. The "success" of HDI can undoubtedly be partially attributed to the fact that the index has had a "home" within the UNDP since its inception. Similarly, successes in the early 1970s with shifting the policy debate to at least more prominently include a focus on poverty have been attributed to such moves having an important institutional sponsor in the World Bank.⁸¹

In this context, it may be noted that the 2010 Seoul meeting of the G20 underlined the importance of narrowing the development gap and reducing poverty, especially in low-income countries, to achieve the broader framework of strong, sustainable, and balanced growth. The G20 outlined a multiyear action plan, which included efforts to improve the tax system in developing countries. The G20 also reaffirmed their commitment to the MDGs.⁸² Could alternative measures of progress feed into such existing initiatives by better aligning measures and policy interests in a path of progress that is more sustainable and equitable?

Question 6: What are the key policy strategies through which more appropriately measured progress can be promoted?

80. CMEPSP, *Report of the Commission*.

81. Martha Finnemore, "Redefining Development at the World Bank," in *International Development and the Social Sciences*, ed. Frederick Cooper and Randall Packard (University of California Press, 1997), 203-227.

82. G20, "The G20 Seoul Summit Leaders' Declaration" (Seoul, G20, 2010).

The literature clearly shows that GDP growth is neither a necessary nor sufficient condition for making progress on a number of important fronts from poverty alleviation to gender equality. Furthermore, it can often damage other dimensions of well-being (e.g., environmental issues and even unhappiness in consumerist society). For an alternative measure of progress to be efficacious, it thus needs to be tied to policies specifically designed to promote such dimensions of progress. While it is worth having a clear picture of what the most efficacious such measures are, it may conversely be worth considering whether there are promising channels for policy action that attach themselves to particular indicators of progress when designing a measure. Such indicators would make alternative measures susceptible to being targeted by policy. Policy areas that are of interest include:

- Taxation and redistributive policies
- Sector-specific policies that may support economic activity with especially great poverty alleviation potential
- Wage and labor legislation
- Subsidies, supports, and safety nets
- Educational strategies
- Environmental regulation and standards

Question 7: What international support mechanisms exist or might need to be created to enhance poor countries' ability to pursue such policies?

Although some of these policy areas have traditionally fallen under the purview of development assistance, others have not. Support for building an effective system of taxation and transfers in-country and aiding the efficaciousness of such a system through efforts to coordinate internationally against "races to the bottom" and evasion may be a fruitful area for innovative initiatives. The same would seem to be indicated in the area of environmental regulation and standards.

Question 8: What aspects of the current international economic system might act as obstacles to the pursuit of such policies?

Serious questions have been raised about the shrinking autonomy of states to take initiatives in a number of the policy areas that might link to an alternative measure of progress (see question 6). Do today's trade rules, for instance, hamper the ability of states to protect and support sectors of the economy that might harbor great potential for poverty alleviation? Has the free movement of capital

created a system wide race to the bottom that effectively curbs governments' ability to institute progressive systems of taxation? Have alternative notions of what constitutes good economic governance driven back so far that it is in fact hard to even think against hegemony? Such considerations of the institutional, legal, and ideological aspects of global economic governance are a final set of issues to be considered in a discussion not only of what a better notion of progress might look like, but also of what might be required to make progress toward such a goal.

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Appendix: Points of contact and departure

Several recent efforts to rethink measures of progress might serve as points of contacts and departures for Oxfam's work in this area.

- *Commission on the Measurement of Economic Performance and Social Progress (CMEPSP 2009)*

Co-chaired by economists Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, the commission was established in 2008 as an initiative of the French government. Members of the commission include academic experts and members from governmental and intergovernmental organizations in many countries. "The aim of the Commission is to identify the limits of GDP as an indicator of economic performance and social progress, to consider additional information required for the production of a more relevant picture, to discuss how to present this information in the most appropriate way, and to check the feasibility of measurement tools proposed by the Commission."⁸³ It issued its first report in September 2009.

<http://www.stiglitz-sen-fitoussi.fr/en/index.htm>

- *"How's life?" (OECD 2011)*

As part of OECD's Better Life Initiative, "How's life?" is a new OECD publication, released in October 2011, to "gather and analyze indicators on the well-being of individuals and households. The report [is] structured along the dimensions identified by the Stiglitz-Sen-Fitoussi Commission, and [focuses] on both average conditions of households and specific population groups in OECD and selected non-OECD countries."⁸⁴ It looks at the well-being of OECD countries through more than 20 indicators over time and serves as the background publication for the "Your Better Life Index."

http://www.oecd.org/document/0/0,3746,en_2649_201185_47837376_1_1_1_1,00.html

83. <http://www.stiglitz-sen-fitoussi.fr/en/index.htm> (accessed May 2012)

84. http://www.oecd.org/document/0/0,3746,en_2649_201185_47837376_1_1_1_1,00.html (accessed May 2012)

➤ *Global Project on Measuring the Progress of Societies (2008)*

Formally established in 2008, the Global Project on “Measuring the Progress of Societies” aims to foster the development of sets of key economic, social, and environmental indicators that better reflect the well-being of societies. The OECD hosts it and runs it in collaboration with other international and regional partners; Oxfam is among the technical advisers.

http://www.wikiprogress.org/index.php/The_Global_Project_on_Measuring_the_Progress_of_Societies#About

➤ *Inter-Agency and Expert Group (IAEG) on MDG Indicators (UN 2009)*

The IAEG is responsible for data gathering and analysis to monitor progress towards the MDGs. The group also helps to define strategies to support countries in data collection, analysis, and reporting on MDGs. It includes departments within the United Nations Secretariat, a number of UN agencies, and various governmental agencies and national bureaus of statistics.

<http://unstats.un.org/unsd/mdg/Host.aspx?Content=IAEG.htm>

➤ *UNDP Human Development Report (HDR) and the HDI*

The *Human Development Report* was first published in 1990 by the UN Development Programme (UNDP) and monitors a series of dimensions relevant to well-being through the optic of the concept of human development. This concept aims at promoting an environment that enlarges people’s choices and freedoms. Development indices currently published by the UNDP HDR include the HDI, the IHDI, the GII, and the MPI. All of these indices are discussed in this report.

<http://hdr.undp.org/en/humandev/>

➤ *Beyond GDP (European Commission, European Parliament, Club of Rome, World Wildlife Foundation [WWF], OECD 2007)*

The Beyond GDP initiative was originally launched at a high-level conference in 2007. It seeks to improve measures of progress, wealth, and well-being by promoting the inclusion of environmental and social dimensions in measures of progress. In August 2009, the European Commission released its policy paper “GDP and Beyond: Measuring Progress in a Changing World,” which outlined five key actions to improve indicators of progress:

- Complementing GDP with environmental and social indicators.
- Providing near real-time information for decision making.
- Reporting more accurately on distribution and inequalities.
- Developing a European Sustainable Development Scoreboard.
- Extending national accounts to environmental and social issues.

<http://www.beyond-gdp.eu/index.html>

➤ *Compendium of Sustainable Development Indicator Initiatives (IISD 2009)*

The International Institute for Sustainable Development (IISD) hosts the Compendium of Sustainable Development Indicator Initiatives, a global directory that identifies organizations and initiatives working in the field of sustainability indicators.

<http://www.iisd.org/measure/compendium/>

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