BEYOND GDP
Advancing New Measures
for a Strong Economy with Sustainable Growth

presented at the New Economy Transitions meeting
Institute for Policy Studies
March 28, 2011

<u>Reflections and Questions for the Next Phase</u>

Lew Daly
Director, Sustainable Progress Initiative
Dēmos

BEYOND GDP: THE CONTEXT FOR CHANGE

The last decade is now often described as a "lost decade." In the United States, there was no net job creation, median family income declined, and $15 trillion in household wealth was lost, the sharpest such decline in 50 years. The rates of both environmental depletion and global warming continue to rise, and despite the Gulf of Mexico oil spill and the Massey mine disaster last spring, cheap, dirty energy remains more or less untouchable in national politics. There are many signs of growing social distress. Poverty is rising, and health gains have stalled and even regressed in many communities—the cost of obesity in America is closing in on $300 billion annually. American students are falling behind their peers in Europe and Asia, and for the first time in polling history, a majority of American parents do not believe their children will fare better than they did. Yet, even in such a "lost" decade, GDP rose nearly 18 percent, and this came on the heels of "the longest economic expansion in American history"—during the Clinton years—and before that, the "largest peacetime boom in American history," during the Reagan years. Between 1980 and 2010, real GDP more than doubled. Yet here we are today.

GDP, which measures the market value of all final goods and services produced within a country in a given period, is the master code in economic policy and national politics. Politicians love nothing more than to boast about the "booms" and "expansions" that GDP registers on their watch. This has been the most coveted theme, and a very common thread, in both parties' politics for the last thirty years. But for most American households, GDP growth has even delivered real gains in income and wealth; it has not delivered greater well-being and happiness; it has not improved our stock of real, sustainable wealth for our children and grandchildren; and it has left nature reeling from reckless consumption and waste, with too little responsibility for the costs. About the only thing GDP growth has consistently delivered is more and more income and wealth in the hands of fewer and fewer people—and more and more danger for the future.

The limits of such accounting—and of the growth model it reinforces—is now increasingly recognized as the costs come due. As Nobel-laureate economists Joseph Stiglitz and Amartya Sen put it in 2009, national income accounting has shifted from "the province of technicians to a subject of public discourse." And it is easy to understand why this is happening in the wake of the economic collapse, they argue:

> Trying to understand what makes for good performance of a society is central to the social sciences. We see the world through lenses not only shaped by our ideologies and ideas but also shaped by the statistics we use to measure what is going on, the latter being frequently linked to the former. GDP per capita is the commonly used metric; governments are pleased when they can report that GDP per capita has arisen, say, by 5%. But other numbers can give a very different picture. In Russia, declining life expectancy suggests there are underlying problems, even if GDP per capita is rising. So, too, in the United States, most individuals saw a decline in income, adjusted for inflation, from 1999-2008—even though GDP per capita was going up—providing a markedly different picture of performance.

National measurement systems, which guide public policy, should not be paradoxical like this, displaying growth but hiding costs. Instead, they should focus our attention, as directly as possible, on the things that matter most for household well-being, common improvement, and future prosperity—i.e., "to promote [and sustain] the common welfare." So, essentially, the goal is to change how we measure economic performance and social progress, in order to refocus public policy on critical social needs and on the resources we must preserve—and create—to ensure a more sustainable prosperity.

Global momentum for advancing new measures in public accounting systems and other key settings has been building. Much important technical work, an extraordinary flowering of NGO-level deliberation and projects, and a growing number of governmental and quasi-governmental initiatives at various levels have created a fertile landscape for change. So too, in a general way, the "beyond GDP" message is being received with increasing sympathy by media commentators and some political leaders.

Still, we have a lot of work to do. Our technical knowledge of new accounting approaches is well-advanced in economics, statistics, and policy, promising much needed feedback on aspects of well-being and sustainability that remain in the shadows of GDP growth. But a growing proliferation of approaches and methods, coupled with too many small, overlapping projects vying for media and political attention, has created scale problems and redundancies that have hampered implementation of these ideas and limited their impact on public policy. In fact, major implementation efforts are slowly getting underway in the European Union, the OECD, the United Nations system, the World Bank, and in a number of individual countries. While these efforts, too, are hampered by extensive mission and project overlaps, they have reasonably strong public mandates and sufficient scale to, potentially, transform national accounting in key parts of the world economy in the shorter-to-medium term. But with the United States, the world's least sustainable advanced economy, lagging behind in this transformation, U.S.-focused efforts have never been more important, and we need to bring a new, more ambitious and strategic sensibility to this work. Three basic needs define the contours of the next phase of indicators work in the United States:

> 1) Building strategic consensus on the most relevant, feasible approaches and methodologies;
>
> 2) Prioritizing investments and actions to push for high-impact implementation, including assessment of government reforms vs. NGO efforts, national and sub-national levels, and moving

from indicator implementation to policy utilization;

3) Developing stronger policy research and messaging, to educate leaders about the importance of new accounting for improving social outcomes.

Our NET discussion will get at these questions through four concrete examples—the Canadian Index of Well-Being, the STAR Community Index, the Maryland Genuine Progress Indicator, and Demos' Beyond GDP policy strategy. Here, however, let me provide some more detailed reflections to help classify the different approaches and sharpen the strategic questions that we should be asking ourselves as we move forward.

THREE BASIC INDICATOR CLASSES

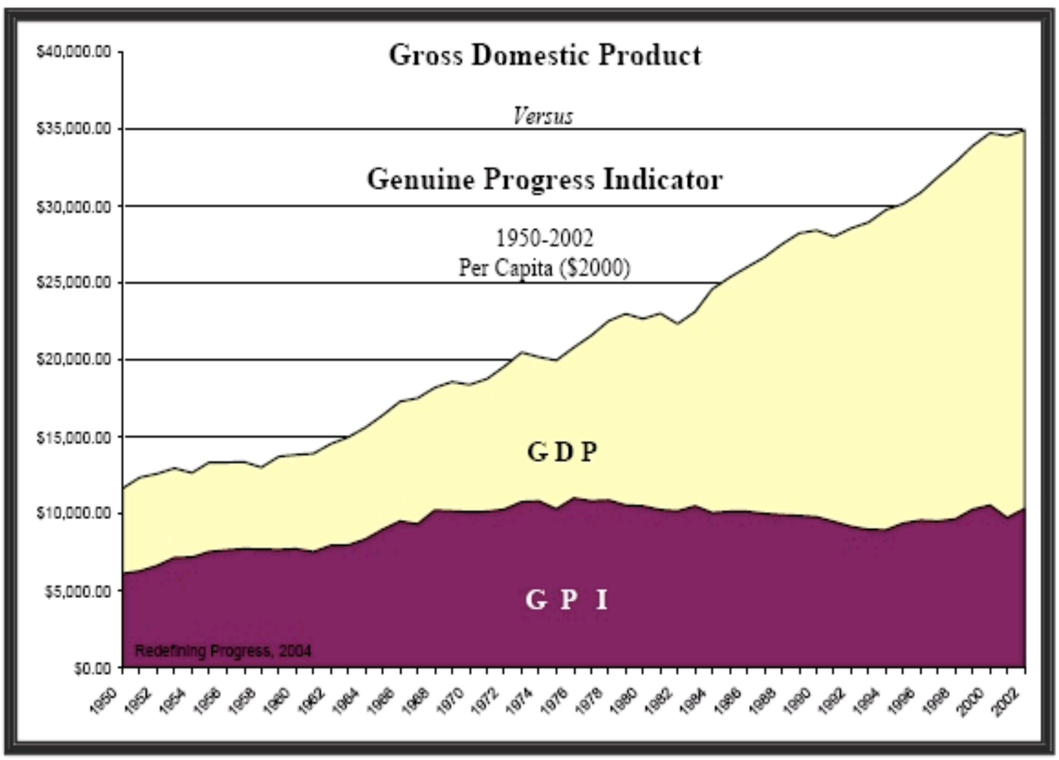
Today's new indicator frameworks can be usefully classified in three basic categories. Notably, in the United States and to some degree in other countries, the time-series results with many of these different approaches show a similar, flattening or declining trend when tracked against GDP growth over the last 30 years [see Figures 1, 2, and 4 below]. The very clear message is that economic growth has fundamentally diverged from average well-being and general welfare. Yet politicians continue to be able to hide behind growth, because alternative measures remain in the shadows of GDP. This is the dynamic we need to change.

a) **Economic welfare and sustainability accounting**

These approaches share a common ancestor in Tobin and Nordhaus's Measure of Economic Welfare, developed in the early 1970s. In general, the methodology is to extend national income accounting, or directly adjust GDP, by including valuation of welfare-depleting and welfare-enhancing activities, and in some approaches a variety of human capital and natural wealth measures to indicate sustainability for future well-being. Leading composite indicators in this genre include the **Genuine Progress Indicator** [see Fig. 1]**,** and the World Bank's **Genuine Savings** measure; however, most governmental efforts (generally following the model developed in the UN's System of Environmental and Economic Accounting) adopt a satellite approach for valuation of discrete components of welfare alongside the core national accounts.

In addition to a fairly vast flow of multiyear or periodic reports, like the World Bank's Wealth of Nations reports (applying Genuine Savings to 140 countries) or various country-level "Green GDP" reports, a number of important governmental or quasi-government implementation efforts in this category (or incorporating this category) have recently gotten off the ground:

- France's **Commission on the Measurement of Economic Performance and Social Progress**, now transitioning into the OECD
- The EU Commission's "**GDP and Beyond Roadmap**"
- The World Bank's new 10-country partnership on ecosystem accounting
- Various country-level projects to improve/expand national accounting (Germany, Netherlands, Australia, China)
- The Maryland **Genuine Progress Indicator**



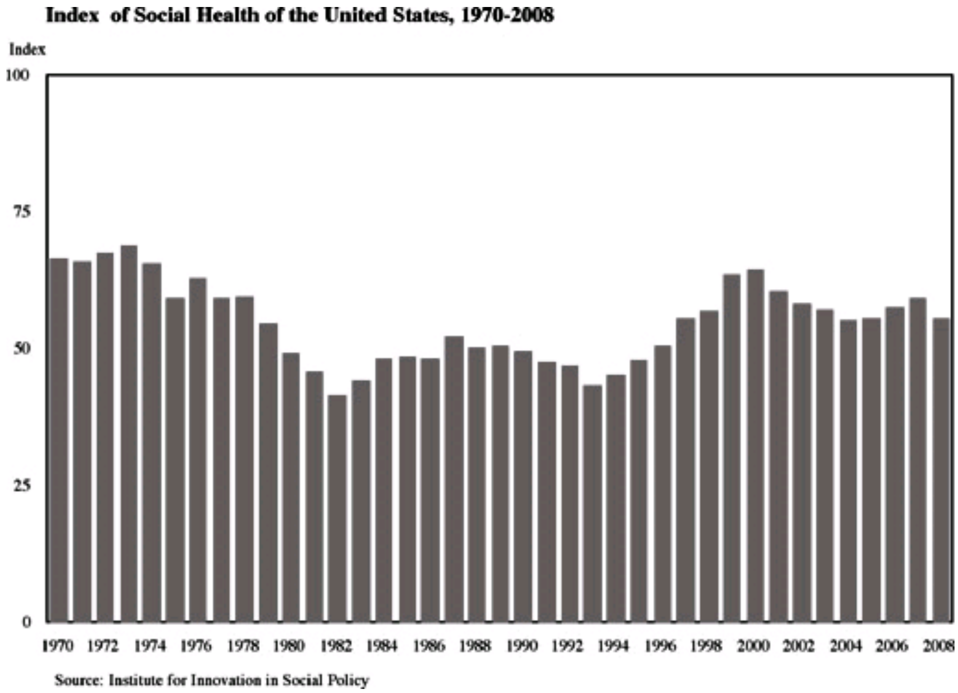
[Fig. 1--This graph shows the growth of United States GDP per capita compared to the growth of Genuine Progress per capita, between 1950 and 2002; the implication of the GPI flat-line since the early 1970s is that national income gains are effectively being canceled out by a variety of welfare losses].

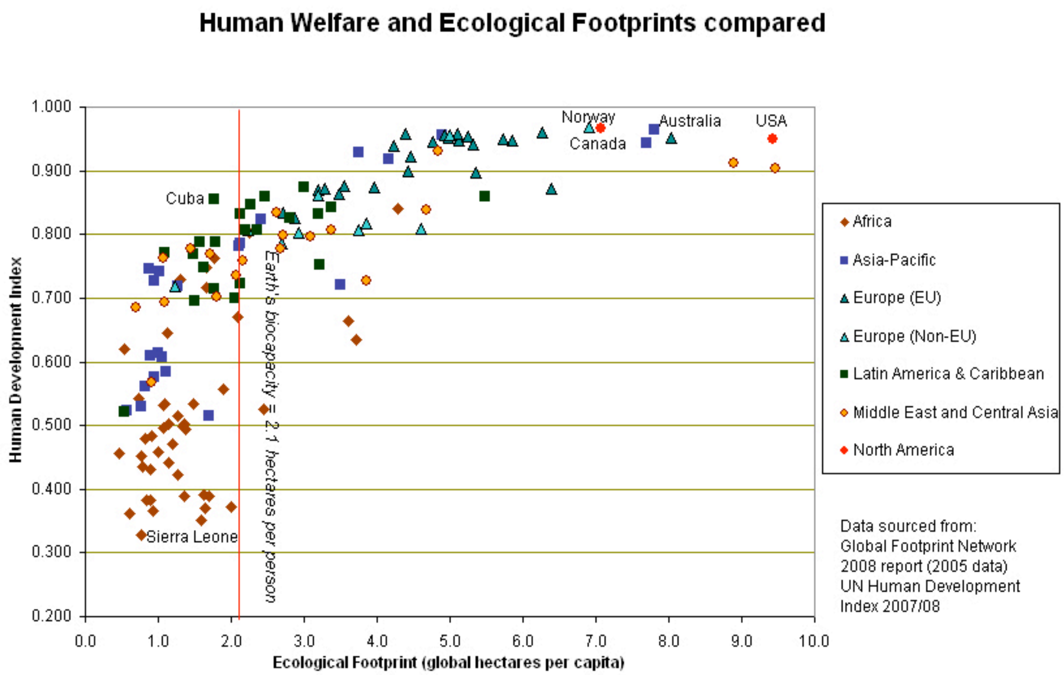
b) **Social and environmental indexes**

These approaches primarily measure objective social welfare conditions in a variety of dimensions, and many attempt to integrate multiple factors in a single composite indicator, sometimes with a rank-ordering of countries, regions, states, or other relevant units (such as legislative districts). Many social welfare indexes incorporate economic information from the national accounts, while some incorporate environmental information. Still others focus exclusively on environmental information. The most comprehensive social welfare index is probably the **Canadian Index of Well-Being**, incorporating measures of democratic engagement, community vitality, education, environment, health, leisure and culture, living standards, and time use. Other key examples in this broad genre include:

- **Human Development Index (HDI)** [a composite index incorporating measures of longevity, education, and living standards; a U.S. state-by-state HDI is published bi-annually by the American Human Development Project]
- **Index of Social Health** [(see **Fig. 2**); the most comprehensive index exclusively focused on social health and welfare trends in the U.S., including data on poverty, child abuse, teen suicide, high school dropouts, crime, drug use, etc.]
- **Ecological Footprint** [(see **Fig. 3**); calculates ecological burden of human consumption in terms of productive land area equal to resources consumed and waste created]
- **Environmental Performance Index** [ranks countries by proximity-to-target on a range of environmental policies]
- **Happy Planet Index (HPI)** [a composite index including measures of longevity, life satisfaction, and ecological footprint]

Fig. 2



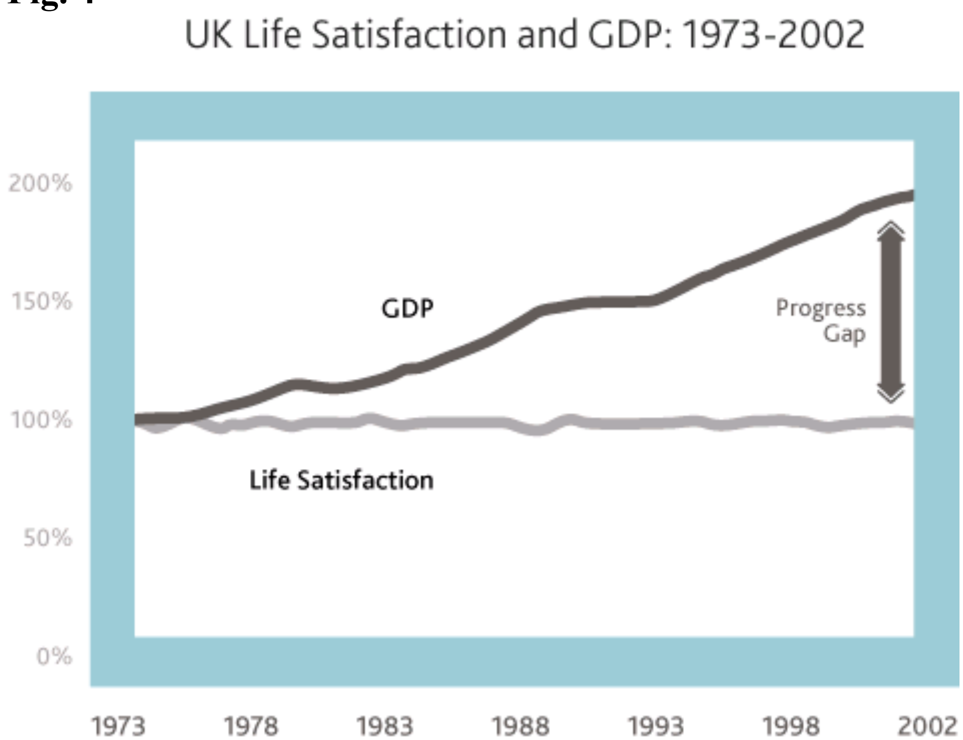


[**Fig. 3--**In this graph plotting countries' ecological footprint against their HDI rating, note the large pool of high-HDI countries with much smaller ecological footprints than the United States.]

c) <u>Subjective well-being indexes</u> (also known as "happiness accounting")

Based primarily on the insights and survey methods of positive psychology, subjective well-being indexes attempt to measure individual feelings and states of mind about daily living and overall life courses. This approach to measuring well-being has attracted the attention of economists and policymakers in the advanced world because correlations between happiness and income grow weaker as incomes rise [See Fig. 4]; quality of life is mainly felt in other dimensions such as home production, family bonding, and community involvement, with significant implications for public policy. The strongest work in this area is the New Economics Foundation's National Accounts of Well-Being for Europe and parts of Eastern Europe. Also important is a new framework developed by Alan Krueger, proposing to integrate subjective well-being data with time-use accounting to develop a more quantitative approach to measuring happiness.

Fig. 4



SOME CONSIDERATIONS FOR PLANNING AND STRATEGY

There is a huge technical literature on new indicators, and significant resources have been expended to develop or refine possibly hundreds of different models across the three basic categories, most never getting beyond the seminar room. More recently, as governments have begun to embrace new accounting, building consensus on models and methods has become more urgent, and some forums have emerged (particularly in Europe) explicitly for that purpose. While the United States lags behind in this process, new government avenues are opening up here as well, both on national accounting reforms and social indicators. So we too need to build greater consensus in order to effectively shape these developments in our favor. More broadly, we need to face some hard questions about the value of indicators work outside of government, even as we must also be concerned about a government-centered strategy that will not be politically easy and will probably leave many of the hardest issues, like climate change, out of the accounting picture for some time to come. In some ways, however, the three different classes of indicators pose different problems for us to assess, leading to different kinds of answers. Some further reflections may be helpful here in shaping a continuing discussion and refinement of diverse strategies:

National Accounting Reforms

Work in this area began in the 1970s as a result of accumulating evidence of negative externalities, disamenities, and distributional trends in advanced, high-growth economies. By the late 1990s, the United Nations' System of National Accounts began to embrace new accounting, beginning with environmental values, and since the mid-2000s, comprehensive reform has been embraced in the EU and OECD systems.

Far less has happened in the United States. After a failed experiment with green accounting in the early 1990s (killed by coal-state congressmen), the U.S. Bureau of Economic Analysis (which runs our national accounts) made no further progress until very recently, in 2010, when new accounting initiatives focused on household economic welfare and energy's economic impact were included in the president's budget and made it through the appropriations subcommittee in Congress (but now are lying in limbo with the rest of the 2011 federal budget).

Along the way, the Genuine Progress Indicator and other similar efforts have attempted to establish a measure of sustainable economic welfare, to compete with GDP outside of government. However, the data and operational needs for credible quarterly reporting of the GPI have far outstripped the resources provided for this work; instead of being a regular counterpoint to GDP, GPI has been stuck in the realm of very irregular reports, with no clear impact on media coverage or the overall narrative about economic performance. Besides these operational needs (and costs), there is also the question of how sustainable welfare accounting outside of government will take hold in policy development. By definition (if not by law), policymakers will continue to be more accountable to the official (welfare-excluding) numbers than to the unofficial (welfare-inclusive) numbers. Policy advocates can call attention to the alternative accounting and interpret it for policymakers, but in contrast to the many discrete areas of social welfare with long traditions of non-profit measurement (and public/nonprofit data partnerships), it seems unlikely that we will have success in integrating sustainable welfare accounting with policy development if we are reporting these numbers ourselves, let alone reporting them irregularly. In terms of funding, moreover, most donors are very skeptical of creating parallel national accounting frameworks outside of government. Besides the large costs and uncertain policy impact, many simply believe that it's the government's job to measure these things, and our job in the policy world is "to make them do it."

On the other hand, political engagement to reform the government's accounting system is also resource intensive, involving extensive coalition building, policy development, lobbying, and communications over a long period. Although less so than with major social policy initiatives, political power cycles could prove difficult to navigate even in this relatively technical area of reform. That said (and despite recent appearances with the rise of the Tea Party, et. al.), the political landscape for national accounting reform is, arguably, very different today than in the early 1990s. Today, as we move further into the era of knowledge-based production, there is arguably much more common ground between, for example, the human investment needs of society and the human-capital needs of business. Potentially, then, there could be broad alliances on a variety of accounting reforms in this area. So too, in other areas of welfare accounting, such as valuing health outputs, and public outputs more generally—there may be significant common ground. Another, more structural reason for aggressively moving forward now is a likely new wave of government reorganization, centered on restructuring the Department of Commerce. This will probably be a major initiative in a second Obama term, if not coming sooner, and a likely result of this restructuring is greater independence for the statistical agencies. We could find ourselves in a much better position to push for and influence national accounting reforms if that happens.

Demos' Beyond GDP project plan includes a policy strategy focused on government reforms, in addition to reaching broader audiences with a succinct national welfare dashboard drawing on others' technical work. Despite all the problems outlined here, we continue to believe that both approaches—political engagement for government reforms, and communication strategies to "dethrone GDP" with non-government indicators—are important; the overall thrust, however, is to push for government reforms, with reinforcement from growing public awareness as the problems with GDP and the benefits of new measures become more widely understood.

Social and Environmental Indicators

Foundations and non-profits have poured a lot of resources into social indicators work since the early twentieth century. Early on, this information played an important role in the development and implementation of social policy and economic regulation. As conditions have begun to worsen again over the last few decades, however, social indicators work has had far less impact on public policy compared to economic indicators.

Many questions arise when we consider this problem. Do social indicators, especially in a dashboard format, lead to policy fragmentation and siloed advocacy that weakens our overall impact? Yet, even powerful composite indexes like the HDI have virtually no impact in the United States. Is this, rather, because economics is so dominant in public policy and political debate, and, if so, do we have any hope of winning on our issues without translating social problems into economic terms, as with welfare and sustainability accounting? Other questions: Are we investing enough in communicating social indicators and do we have the right messages? Or more pessimistically, how much do racial, gender, and class divides weaken public will for policy action on social needs; and how can social indicators work have significant impact if we continue to be mired in such divides?

Heavily government-dependent, environmental indicators bring a whole range of other problems, including lack of inter-agency coordination and lack of funding for costly monitoring needs, as well as growing politicization as environmental problems have begun to escalate. In the 2000s, many ongoing threads of environmental indicators work ran out, for lack of any unifying purpose or mandate from the White House or Congress.

Today, however, many of the stakeholders view environmental accounting as a new avenue for reviving environmental indicators work in the future. Particularly with a focus on energy and climate change costs, environmental accounting will require substantial new physical data flows and data improvements for credible valuation. Thus, if we can revive an American version of integrated economic and environmental accounting (likely starting with energy issues), this could bring critical improvements in at least some aspects of our environmental information gathering.

A potential breakthrough for enhancing the policy influence of social and environmental indicators is the Key National Indicator System, authorized in the health care reform bill of 2010 and funded by Congress with $70 million over nine years (the first year appropriation is also currently in limbo along with the rest of the 2011 budget). Much of the emphasis of the KNIS will be on social indicators, and those of us who work in that area need to get organized now to put our stamp on this important public information platform.

Subjective Well-Being

The newer arena of subjective well-being is developing rapidly and with intensifying interest from economists and political leaders, if less so from social policy advocates. Some of the latter fear interpretations of the subjective data that will diminish the importance of material needs as compared with emotional and psychological needs: e.g. if being married or living near one's family is a better predictor of happiness than accumulating wealth, maybe public policy should put more of a priority on promoting marriage rather than, say, household asset-building. In many respects, however, the needs brought to light by subjective well-being measures point to strong policy interventions, particularly around employment and job quality, health, community planning, work-family balance, and other key aspects of quality of life. Krueger's model, integrating survey data with time-use accounting from the American Time Use Survey, is a brilliant step forward for measuring happiness in policy-relevant terms.

Not surprisingly, politicians are increasingly signing on to happiness measures, and some, like David Cameron, are doing so while slashing public assistance (perhaps already confirming the fears of some social policy advocates). The problem, though, is not happiness accounting per se, which is an important tool for many aspects of positive policy development. The problem is embracing happiness accounting without a more holistic, welfare- and sustainability-oriented view of national accounting needs. Subjective well-being, while clearly an important factor for policy development in many areas, is not a panacea for the large-order, structural problems we face in terms of declining social welfare and unsustainable distributions and growth. For that we need welfare and sustainability measures along with measures of happiness.

Policy Relevance: From New Measures to Better Social Outcomes

Finally, when we talk about new indicators, we often get the question, "why does it matter?" or, more pragmatically from policymakers, "how can I use this stuff?" In fact, there is a big gap between our technical advances in developing new indicators and our demonstrated success in using them to reshape public policy and improve social outcomes. Much of our policy case for new indicators probably relies more on counterfactuals from the poor track record of GDP-based accounting than on demonstrated results from new accounting. Of course, this is in part a classic "chicken and egg" problem: you can't demonstrate the effectiveness of new indicators until they are implemented and utilized in specific policy settings; yet, to get new indicators implemented and utilized, you need to persuade key gatekeepers that they are not just better ideas but better in practice.

Although most of our resources should now be invested in concrete strategies for high-impact implementation, we also need to develop better, testable models for policy analysis and policy solutions based on new indicators, and we need to publish and promote the results. A well-organized research program specifically designed to meet this need should be organized in the very near future.