Nobel Prize-winner Joseph Stiglitz believes that economists might have foreseen the real estate bubble crash had they looked past GDP growth to the distribution of income among the American middle class. • But looking at median markers and well-being isn't part of the current national statistical puzzle. • Yet a number of nations and institutions are beginning to acknowledge they can't predict the future on GDP alone. • They need to know how people are feeling, and what they want. •

When Quality Matters More than GDP

by **Donato Speroni**

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Nobel Prize-winning American economist Joseph Stiglitz at the 'Financial Regulator After Economic Crisis forum' held in Beijing in October.

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From "the hungry society" to "the angry society." Koreans use this terminology to describe the evolution of their country over the past three decades. We're not talking about North Koreans, still oppressed by a blindly tyrannical regime, but South Koreans. Seoul's GDP has increased sevenfold in real terms, but so have signs of social distress: the birth rate is the lowest in the world and the suicide rate the highest. To track the mood of the country, the South Korean government has introduced a set of "national happiness" indices in an effort to quantify and explain this wave of unhappiness.

South Korea isn't alone in trying to find new means to quantify the national mood. Economic woes and environmental problems have accentuated the need for solutions. According to Nobel laureate Joseph Stiglitz, one of the causes of the recent economic crisis grew from a tendency among economists to overstate the importance of U.S. GDP, which grew from 2004 to 2007. They failed to calculate that only a select few felt the wealth produced by this boom.

Economists tend to swear by average figures, in this case per capita GPD. But had they chosen instead to probe the median, in essence the extent to which income was actually benefiting middle class Americans, they might have gotten an early picture of the deep weakening that was a precursor to the collapse of the real estate bubble. But median GDP isn't among the battery of indicators routinely taken into account when it comes to formulating the comprehensive package of statistical data intended to help frame the economic health of nation.

French president Nicholas Sarkozy was among the first national leaders to take note of this grey zone, noting an increasing contradiction between citizen desire to maintain their levels of material wealth while at the same time worrying about the environmental harm caused by the production of the wealth itself. In early 2008, Sarkozy created an expert commission led by Stiglitz, along with fellow economists Jean-Paul Fitoussi and Amartya Sen, to help draft new proposals. The committee presented its findings last September (see the Executive Report on the following pages). The same month also saw the publication of a European Commission paper titled "GDP and Beyond" and the final recommendations of the G20 summit in Pittsburgh, all of which recommended the development of new indicators to comprehensively measure economic progress.

But how to accomplish these goals? The first major global discussion of GDP measurements and its shortcomings was held in Busan, South Korea from October 27 through 30 as part of the World Forum on Statistics, Knowledge and Policy. In all, 1,700 officials from 130 Countries attended the conference, including economists, statisticians, political leaders, and a large contingent of NGO officials. It was the largest event ever sponsored by the Paris-based Organization for Economic Cooperation and Development (OECD), which is charged with analyzing the 30 most industrialized countries. But the success of the meeting (this is its third edition, the first held in Palermo in 2004, the second in Istanbul in 2007; see East No. 16) also meant highlighting the problems at hand, because the objective of "measuring progress" not just GDP terms, creates immense technical, political and even philosophical dilemmas, as Ruth Veenhoven notes in a separate article published in this issue.

Economists, statisticians, psychologists and sociologists have been openly discussing the issue for some three decades, since American academic Richard A. Easterlin showed in 1974 that once a persona's primary needs are met, happiness doesn't grow in tandem with income. So what then determines individual contentment? The question prompted the development of "the economics of happiness," a field that has been consistently enriched by new and interesting contributions. Many Easterlin followers argue, for example, that happiness is mainly contingent on the improvement of personal status within a community (the "keeping up with the Joneses" factor) and supported by other factors mostly related to health and social life social. Others dispute this claim, but the debate on so-called "Easterlin paradox" continues stimulating the search for a bindingly reliable measurement.

Even without getting into considerable substance the issue, the act of directly measuring "happiness" or "wellness," both on substantiating individual happiness, requires measuring "well-being." There are two schools of thought, the "North European school," which focuses on objective indicators, and the more subjective "American School," which tends to measure self-perception, usually on a scale of one to 10. Both models have serious defects.

Not all so-called objective indicators chronicle progress. On the contrary. But while suicide rate is certainly a clear indicator of social discomfort, what for example should be the optimum divorce rate in any given society? Kenneth Prewitt, the founding president of the State of the U.S. foundation, a giant clearing house on data about American society, asked himself the question. “It's not zero, which would suggest a situation in which lots of people are condemned to bad marriages, but it's not 100 percent, either. So what is it?” The difficulty of finding comparables is compounded by the fact that in many situations the statistics are inadequate. For example, it should be obvious that the true indicator personal welfare can't simply be measured in terms of “life expectancy,” or the number of years someone has before his or her deaths, but “life expectancy in good health.” Yet very few countries possess such information, which is naturally more arduous to collect and to process.

On the other hand, even subjective indicators face their own dilemmas, not the least of which is how individuals respond to the question “How happy do you feel?” The answer could be influenced by passing concerns (the weather, even), by how inspiring they find the person asking the question, but above all by considerations. People in different countries don't give the same answers to the same questions.

As Australian Robert Cummins, president of International Society for Quality of Life Studies said in Busan, “an American or an Australian has no qualms about giving life a 10 if he's really happy, while an Asian is unlikely to ever grade life higher than an eight.” Overall, though, Cummins defends the importance of attempting to assess so-called “subjective well-being,” which has been a staple in Australia data-gathering for years. The results have shown a surprising stability in the average data (less than a three percent variance over in 10 years). This has made it easier to measure the causes of discomfort (for example, fear of increased immigrants, excessive urban density) through the examination of data that deviates from the mean.

Another problem that lacks a simple answer whether to examine a large number of indices at once or create

Every kind of interpersonal interaction is considered a key part of promoting social and personal well-being.

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one broader global index that incorporates a variety of measurements. The best known of the broader indices is the Human Development Index (HDI) developed by UNDP, the United Nations Development Program. HDI factors in GDP, life expectancy and cultural level of each nation. It has been criticized for failing to adequately assess environmental factors and will be reconfigured at the end of 2010. There are similar efforts, including the independent Happy Planet Index, but many technicians shun them fearing that the more they try to account for, the less their significance can be properly assessed. "What can we do with a car dashboard dial that dishes out ratio of speed to gas left?" Stiglitz says ironically.

But others such as Sir Richard Layard, who heads up London School of Economics' studies on happiness, argues that in the absence of an overall personal welfare index there's no way of getting around the dominance of GDP in evaluating national performance and as a result dictating policy choices. Layard's views have the support of a number of NGOs and "no global" advocates who question the very concept of growth as an indicator for progress. Some nations, including Bhutan, which has a Gross National Happiness Index, now South Korea, with its new plan based on 10 quality of life areas, already decided to redefine what goes into defining progress.

At this point, the matter turns political. In the past, efforts to take the economic debate "beyond GDP" has been viewed with suspicion, particularly among consumer product lobbies. Stiglitz, remarking on his time as president of the U.S. Council of Economic Advisors, said in Busan that when he began preparing proposals for then-President Bill Clinton similar to those that emerged this year in his work for Sarkozy, his efforts were swiftly buried by the energy lobbies, particularly the members of the coal industry, which feared the introduction taxes on CO_2 emissions. Undeniably, it's an extremely delicate matter: if the production of wealth were calculated in terms of the net damage caused to the environment, industrial policies would require fundamental revision.

The new indicators also create some serious concerns for the leadership of developing countries, both because of their potential to attention to environmental damage related to growth and the way they might make domestic social divisions more internationally evident. "We don't want these new indices to make life more difficult," said Lahlimi Ahmed Alami, high commissioner for planning in Morocco. Even major Asian states have raised their own set of concerns, beginning with China. Officially, the Beijing government is still committed to the path that would lead to a "Xiaokang Society," one where every citizen is "moderately prosperous." The plan was launched by Premier Deng Xiaoping in 1979, and is based on 23 national indicators. But the push to "measure progress" as requested by OECD, also means increasing measurements so that they extend into local communities, which in turn could provoke the kind self-critical analysis that risks undermine the China's fragile social stability.

There is also matter of smoothing out the relationship between the technical and political sides. Pronab Sen, India's National Chief Statistician, told a Busan audience that the success of any index depends entirely on the will of rulers and heads of national programming to implement it in future policy choices. India will host the fourth forum in 2010-2011 and Sen's concerns will certainly weigh on the development of a future agenda.

There's also some resistance from the UN bureaucracy, which is busy preparing new Millennium Development Goals (MDGs) expected to be announced well before the 2015 expiry date of the current ones. "Someone told me that I was headed into enemy territory by going to Busan," joked Paul Cheung, the Head of the Statistical Office of the United Nations. He wasn't really kidding. "There's no doubt that we have to cooperate in the process, but let's take things one step at a time," he said. "The MDGs are a shared vision of the world and we can't just create a parallel universe."


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The origin of this resistance also includes the position of the OECD, which under the guidance of the Chief Statistician Enrico Giovannini promoted these forums. Now that Giovannini has returned to Italy following his eight-year OECD stint (see interview), there are those who want to take a step backward, in part because the OECD's own future is uncertain. While the OECD's Paris headquarters was once the undisputed venue for discussion among industrialized countries, key nations (China and India, Brazil and Russia, South Africa and Indonesia) are now tending to lay back, watching from the outside, considering the upper echelons of the organization too Eurocentric ("too many Europeans," said one diplomat).

But the OECD Secretary General Angel Gurría, a Mexican, and his deputy, Italian Pier Carlo Padoan, are determined to dispel such doubts. The general strategy announced with the introduction of the Busan Roadmap consists in making the organization a centerpiece for the creation of a so-called "progressive framework," in much the same way as the G20 recognized the need for a new "legal framework" to regulate economic and financial globalization. Now, says the OECD, the time has come to institute standards that cover social progress, which it says it can and should be responsible for doing. The idea appears to have a large consensus. In Busan, Padoan and Giovannini launched wikiprogress, an information highway tool intended to enhance interactivity and encourage participation from to bottom up among all organizations interested in getting involved in the debate on progress.

In any event, the idea of "getting beyond GDP" is out of the bag. Statisticians are beginning to work on three requirements outlined in the Stiglitz report, an enterprise that has been backed by all experts.

1.GDP as a measure of national production should not be abandoned. At the same time, it's important to systematically supplement GDP with other statistical values. In addition to the "gross per capita product," it's essential to measure the share of income actually available to families, as well as to take into account social distribution and the net wealth transferred to the state. On the other hand, the output of public services must be more meticulously measured. At the moment, it's weighed down by calculating public expenditure without regard to actual productivity, which is far too limiting.

2.While GDP measures production, wellness is a multidimensional matter, depending centrally on social status, security, health, education, and the relationship between citizens and their institutions. Improving the gathering of such information, both subjective and objective, is vital, while leaving the door open to the question of whether the accumulated data should be placed into aggregate indices or considered separately. Two different roles are becoming evident. While national statistical offices should improve social data, international organizations and individuals must combine them in compatible, comparable indices.

3.The GDP is called "gross" because, unlike in corporate accounting, it makes no accounting for depreciation. But it's also essential to measure the its "sustainability," which means weighing changes in capital to determine whether the production of wealth today is being obtained at the expense of future potential of the community (primarily in environmental terms, but also in human ones, based for example on a country's educational legacy).

In this context, the Stiglitz commission very clearly refers to the need for indicators on the concentration of carbon dioxide in the atmosphere and its effects on global warming. The message is clear: It's not viable to continue measuring current output and the wealth it generates independent of effect it might have on the future. So it is that the debate over the "measuring of progress" now moves from Busan to Copenhagen, where the UN Climate Summit, which will debate what to do after the Kyoto Treaty expires in 2012, will define the December agenda.