

Progress what progress?

By Joseph Stiglitz

“We Democrats have a very different measure of what constitutes progress in this country”. These were Barack Obama words when he accepted the Democratic Party’s nomination to run for president in August 2008. Many decades before that, during the last Great Depression, another US president, Franklin D. Roosevelt, was very aware of the short falls of material measures of progress. Take his State of the Union address in 1934 when Roosevelt warned that “the overwhelming majority of our people seek a greater opportunity for humanity to prosper and find happiness. They recognize that human welfare has not increased and does not increase through mere materialism and luxury, but that it does progress through integrity, unselfishness, responsibility and justice ...”.

Developing measures that truly capture progress is a subject close to my heart and indeed is the focus of the “Commission on the Measurement of Economic Performance and Social Progress” launched in 2008 by French President Nicolas Sarkozy and that I am chairing (see www.stiglitz-sen-fitoussi.fr). The Commission comprises some of the world’s great thinkers and researchers, and includes four other Nobel laureates, with Kenneth Arrow, James Heckman and Daniel Kahneman as members and Amartya Sen as advisor.

The work of the Commission is closely linked to the “Global Project on Measuring the Progress of Societies”. This OECD-driven project has proved very timely too, for in today’s economic downturn and with other challenges such as climate change and global inequality, models and ideas are understandably being questioned. For the past three years the Global Project has been looking at new

sets of economic, social and environmental indicators in a bid to paint a comprehensive picture of how our world is really performing. This work is already proving invaluable to the Commission's own task.

GDP in the dock

The Commission has embarked on three areas of enquiry for measuring progress: first, GDP and how it might be extended or modified; second, sustainable development and the environment, and how economic performance and social progress relate to them; and third, the quality of life, including metrics to find out how people actually feel about their lives and their own well-being.

For 60 years gross domestic product, or GDP for short, has been the yardstick by which the world has measured and understood economic and social progress. However, it has failed to capture some of the factors that make a difference in people's lives and contribute to their happiness, such as security, leisure, income distribution and a clean environment--including the kinds of factors which growth itself needs to be sustainable.

There is another problem to resolve, and that is the often wide gap between measures of such important variables as economic growth, inflation, inequality, and social mobility and public perceptions. Incomes may rise, but people feel poorer, or inflation may fall, yet people see higher prices in their local stores. This gap between statistics and perceptions is often so wide--and widespread--that it cannot be dismissed as an illusion or the result of public hysteria. And it contributes to a lack of confidence in those who produce and rely on these statistics.

What can be done? This is the question set before Enrico Giovannini (OECD) and his team, the first of three working groups we have set up. To be fair, GDP has strengths as a measure of market based economic activity and wealth creation--if it didn't it would not have lasted so long. If you want to know how production is growing or whether spending on goods and services is up or down, then GDP provides a good starting point. It is still a rough measure, and the group is

working to refine it. But there are more fundamental problems. For instance, GDP does not take depletion of natural resources or environmental damage into account any more than it takes account of capital depreciation, despite the fact that depreciation siphons wealth away from growth towards replacing existing technology and capital. Measuring progress must take depletion into account.

Another challenge is to find a better way of measuring income distribution and gaps between rich and poor. One way is by identifying median incomes: half of all earners are above that income, the other half are below it. In the US where GDP per capita has risen almost continuously, in recent years the median household income has fallen absolutely, let alone as a ratio to average income, meaning a wider income gap. But medians are limited, for they do not reveal what is happening at the extremes, such as the super rich or the extremely poor. No single number can fully reflect what is going on in our complex societies.

Another problem is how to capture the many economically useful services households undertake every day but which do not show up in the nation's accounts, such as cleaning, cooking and childcare. Indeed, a recent study for Germany and Finland showed that the unmeasured household production corresponds to between 30 and 40% of GDP.

Cracking the environment nut

For many people, this is really where measuring progress must make a difference. We have known for years that human economic activity exhausts our natural resources and damages our fragile environment, yet economists and governments have been slow to incorporate them into their measurements. How can we “mainstream” the environment into our normal thought processes, models and actions? Two decades after the so-called Brundtland Report which in 1987 launched “sustainable development” as a policy goal, the answer may be close. Results presented at a few recent major international conferences, such as the OECD World Forum in Istanbul in June 2007 and the EU conference, Beyond GDP, in November of that year, certainly give good ground for optimism.

One idea to emerge from these discussions is an ambitious framework called the System of Integrated Environmental and Economic Accounting. Geoffrey Heal (Columbia University) leads our second working group to clarify that framework and quantify the impact on personal well-being of the likes of air quality, noise and physical space. Can these characteristics be converted into, say, a monetary metric for changes in air quality? Or could a more general index be created? When pollution clearly affects some areas more than others, what kinds of measures should we introduce?

Then there is the question of measuring sustainability. Environmentalists are rightly concerned that our natural environment may be fragile, and that the consumption and production patterns in the advanced industrial countries of today are not sustainable. We are not only depleting exhaustible natural resources, in some areas, like species loss, there is irreversible ecological damage. Can we construct a measure of “natural wealth,” and assess what is happening to it?

These are among the challenges that our second working group is addressing.

Quality of life: a new paradigm?

Most people would probably agree that there is more to life than money, but it is unlikely they would agree on how to define the “quality of life”. There have been many attempts at measuring this by looking for objective ways of capturing what is inherently a subjective concept. Recent advances in a variety of social sciences, however, have suggested that there are reliable and replicable ways of ascertaining certain aspects of well being and quality of life, and relating subjective perceptions to objective phenomenon, such as market based activities.

The third working group, chaired by Alan Krueger (Princeton University), is leading this search for metrics of the features that give life its true value and has chosen four possible approaches.

First, they have set out to find composite measures for the quality of life by aggregating objective indicators, based on personal experiences with respect to good health, proper education, political freedom and oppression, etc.

Second, they are finding out how people spend their time and how much enjoyment they derive from the things they do everyday. In theory a single yardstick could describe qualitative hedonic experiences. This has already been tried, and used to compare France and the US, with results that show that, despite higher income, French women in particular actually devote more time to pleasurable activities than American women do.

The third approach is to ask people to provide broad qualitative judgments on life as a whole. This approach can give simple read outs, for instance, that half of America “thrives” while the other half “struggles”. This approach can go beyond capturing average levels of satisfaction in a country to reveal inequalities in satisfaction levels.

Finally, the enquiry asks people to rank (and evaluate) the importance they attach to factors such as income, leisure, health, job security and so on. This “equivalent income” approach prices in what people would be willing to pay for these non-income assets, and so goes beyond market income for a broader measure of the quality of life.

What next?

The Commission will deliver its report in April 2009 and I am sure that our conclusions will stimulate a fruitful debate, both intellectually and politically. What we measure affects what we do. We will never have perfect measures—and we need different measures for different purposes. But our work so far has shown that there is considerable room for improvement in our measures. There are reforms that can be instituted immediately; others will require more research.

I also hope that the Global Project will continue to carry the torch by strengthening its worldwide network, working with research centers to advance

new ways of measuring societal progress and promoting this fundamental work, which is so essential to policy makers, and other stakeholders, including the wider public. The involvement in the Project of key institutions like the World Bank, the United Nations Development Programme and the European Commission means we have an historic opportunity to take this vital agenda to the next stage and make the real changes we need. Through the work of our Commission and of the Global Project, we are contributing to this effort. Producing better, truer, ways of measuring economic, environmental and social performance is a critical step in making progress towards building a better world.

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