

# Is GDP An Obsolete Measure of Progress?

By Judith D. Schwartz, Saturday, January 30, 2010 – Time Magazine

Since last summer the nation's Gross Domestic Product (GDP) has gone up — indeed, it grew at a surprising 5.7% rate in the 4th quarter — seeming to confirm what we've been hearing: the recession is officially over. But wait — foreclosure and unemployment rates remain high, and food banks are seeing record demand. Could it be that the GDP, that gold standard of economic data, might not be the best way to gauge a nation's relative prosperity?

Since it became the prime economic indicator during the Second World War (to monitor war production) many have criticized policy-makers' reliance on the GDP — and proposed substitute measures. For example, there is the Human Development Index (HDI), used by the UN's Development Programme, which considers life expectancy and literacy as well as standard of living as determined by GDP. And the Genuine Progress Indicator, which incorporates aspects of social welfare such as income equity, pollution, and access to health care. In the international community, perhaps the biggest nudge has come from French President Nicolas Sarkozy, who commissioned a report by marquee-name economists, including Nobel laureates Joseph Stiglitz and Amartya Sen, to find alternatives to what he calls "GDP fetishism". **(See the best business deals of 2009.)**

What exactly have we been fetishizing? Basically, market activity and growth. The GDP, generally expressed as a per-capita figure and often adjusted to reflect purchasing power, represents the market value of good and services produced within a nation's boundaries. Sounds reasonable. Until we consider what it doesn't measure: the general progress in health and education, the condition of public infrastructure, fuel efficiency, community and leisure.

"It's a narrow calculation of cash flow," says Hazel Henderson, President of Ethical Markets Media (USA and Brazil) and who co-developed the Calvert-Henderson Quality of Life Indicators, which unbundles, rather than averages, 12 indicators. "Because it's averaged, the GDP mystifies and masks the gap between rich and poor. I don't think there's ever been such a large disconnect between the GDP and what ordinary people are experiencing." **(See TIME's 2009 Person of the Year: Federal Reserve Chairman Ben Bernanke.)**

As an example of how what's good for the GDP is not always good for the individual, take health care: rising costs may be tough on families, but it boosts the GDP.

"The GDP is a truly terrible measure of things that really matter," says James Gustave (Gus) Speth, Distinguished Senior Fellow at Demos, a public policy research and advocacy organization based in New York. "Finally, there's a broad consensus on this point. For the first time there's a chance that this concern will move out of academic and research circles and become a real policy question."

Speth notes the seemingly paradoxical relationship between the growth rate (GDP) and decline in employment. "It takes enormous GDP growth to get jobs," he says. "It focuses us as a nation on a fool's errand."

One new calculation that's been attracting attention is the Happy Planet Index (HPI), which combines economic metrics with indicators of well-being, including subjective measures of life satisfaction, which have become quite sophisticated (HPI uses data from Gallup, World Values Survey, and Ecological Footprint). The HPI assesses social and economic well-being in the context of resources used, looking at the degree of human happiness generated per quantity of environment consumed. The HPI metric was driven in part by the recognition that the environmental costs of economic growth must be figured into standard-of-living reports. **(See the worst business deals of 2009.)**

"The GDP suited a different era and now we need a metric for our times," says Nic Marks, a Fellow at the London-based New Economics Foundation, and founder of its Centre for Well-Being. "During World War II production was important. After the war was the need for rebuilding. We're way past that. We need to account for our ecological footprint and see how we're operating on the planet. The GDP is often precisely wrong in that it's not measuring progress, just the making of stuff. The HPI is striving to measure a better future." One appeal of the GDP, says Marks, has been that it presents a simple message: up is "good"; down is "bad." "HPI is trying to mirror that simplicity, using one number as a headline indicator."

In terms of what the world wants measured, it seems the HDI and HPI have it over the GDP. For its report "International Public Opinion on Measuring National Progress: 2007" GlobeScan, a research firm based in Canada and London, surveyed 1,000 people in each of 10 countries not including the U.S.. When asked whether health, social and environmental status should figure into measures of national progress as much as economic data, between 70% (Russia) and 86% (France) agreed. "It's common sense and matches their experience," says Hazel Henderson, whose firm commissioned the study. "People know there is much valuable in their lives besides what can be expressed in monetary terms."

The matter of how a nation measures performance is far from trivial, says Gus Speth, particularly at a time when environment sustainability is on many people's minds. He observes: "You tend to get what you measure, so we'd better measure what we want." In other words, to a certain extent we are what we count. **(See pictures of the stock market crash of 1929.)**

For Nic Marks, the key shift introduced by the HPI is its "move away from measuring production and toward measuring consumption. The HPI serves as a signpost pointing more toward a society we want to live in — the delivery of good lives rather than the delivery of more goods."

So how does the U.S. fare in HPI terms? Not so good. It sits pretty far down the list at 114. The U.K. is 74, behind Germany, Italy and France. Topping the chart is Costa Rica, which has long life expectancy, high life satisfaction, and a per capita ecological footprint one-fourth the size of the U.S.

As Gus Speth explains it: "We [in the U.S. are] chewing up a lot of environment for not much happiness."

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