

MEASURING ECONOMIC AND SOCIAL WELLBEING

A major problem in Australia and most other countries is that the level of activity of an economy is measured using Gross Domestic Product (GDP). The concept of GDP was first developed by Simon Kuznets in 1934. Kuznets recommended that GDP be used as a temporary measure, and warned against its use as a measure of welfare.

GDP involves estimating the dollar value of physical goods produced and most, but not all, services provided. Other less tangible items that are more difficult to quantify, but are nevertheless vital aspects of economic and social wellbeing, are not included.

Essentially, at the establishment level, GDP is equal to the dollar amount received by the entity for outputs produced, minus the dollar cost of its inputs. The residual is the value added created by each establishment. These are all added together to arrive at total value added or GDP.

Because only outputs that are paid for are included, many components of the economy, and life in general, are omitted, including the contributions of unpaid carers, unpaid parents and all forms of volunteering. In addition, GDP does not take into account the value of non-dollar positive outcomes generated, or the non-dollar negative outcomes imposed on society. In addition, depreciation is not deducted in calculating GDP.

On the income side, National Income, which is equal to GDP, is essentially made up of salaries and wages paid to individuals plus gross operating profit accruing to businesses. This means that, in the case of the public sector and not-for-profit organisations, GDP is equal to salaries and wages only, which leads to a number of other distortions.

Importantly, GDP does not take into account the degradation and consumption of national resources.

Joseph Stiglitz¹:

It is obvious now that the standard way of measuring economic performance — the level of real per capita GDP and the rate at which it is growing — is not a good measure of success.

America has been doing fairly well in terms of real per capita GDP, and those numbers lulled it into thinking that all was going well.

In addition, GDP does not take into account the considerable differences in the distribution of income and consumption across different demographic groups.

Peter Drucker coined the phrase: 'What gets measured gets done'. This means that governments, economists, the media and others tend to focus on the things that contribute to increasing GDP. The result is that the many important items that are not measured by GDP do not receive the attention they deserve. And the things that are measured — because they are easier to quantify in dollar terms — receive a disproportionate amount of attention, effort and resourcing. Another great example of goal displacement.

In 1968, Robert Kennedy captured all that is wrong with GDP when he said: 'GDP measures everything except that which makes life worthwhile.'

¹ Joseph Stiglitz, *The Price of Inequality*, Kindle Ed.

https://www.amazon.com.au/Price-Inequality-Joseph-Stiglitz-ebook/dp/B0087OROKA/ref=sr_1_1

Developments in measuring wellbeing

Australian Bureau of Statistics (ABS)²:

Several years ago the Australian Bureau of Statistics developed *Measures of Australia's Progress* (MAP). At the time, the ABS noted that:

- *The past decade had seen growing public interest in assessing whether life in Australia and other countries is getting better, and whether the level of (or pace of improvement in) the quality of life can be sustained into the future*
- *Many believe that GDP should be assessed in conjunction with other measures of progress*
- *This is the prime reason the ABS looked for an alternative approach.*

MAP provided Australians with 26 indicators related to society, the economy, environment and governance. Unfortunately, funding was discontinued for MAP in 2014.

Ida Kubiszewski³:

One of the new measures being developed is the Genuine Progress Indicator (GPI). GPI starts with personal consumption expenditures — a major component of GDP — and adjusts it using 25 components.

These adjustments include incorporating the negative effects of income inequality on welfare; adding positive elements not considered in GDP, such as the benefits of household work, volunteer work, and higher education; and subtracting environmental costs and social costs like the costs of crime, unemployment, and pollution. In doing so, it paints a more accurate picture of how far we've come over the last three decades.

Office for National Statistics (UK)⁴:

The UK Statistician announced the development of the Measuring National Wellbeing (MNW) program, saying that:

- *... we have identified how factors such as health, access to services and crime levels may affect how people rate their wellbeing in different parts of the UK.*
- *The aim of developing and publishing an accepted and trusted set of National Statistics is to help people understand and monitor wellbeing.*

Sustainable Development Solutions Network (World Happiness Report 2017)⁵:

Increasingly, happiness is considered to be the proper measure of social progress and the goal of public policy.

² Australian Bureau of Statistics, *1370.0 - Measures of Australia's Progress*, 2013, 5 September 2014.

<https://www.abs.gov.au/ausstats/abs@.nsf/mf/1370.0>

³ Ida Kubiszewski, 'Beyond GDP: are there better ways to measure well-being?', *The Conversation*, 2 December 2014.

<https://theconversation.com/beyond-gdp-are-there-better-ways-to-measure-well-being-33414>

⁴ Office for National Statistics, *Personal well-being in the UK: April 2017 to March 2018*, 26 September 2018.

<https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/measuringnationalwellbeing/april2017tomarch2018>

⁵ Sustainable Development Solutions Network, *World Happiness Report 2017*.
<https://worldhappiness.report/ed/2017/>

In June 2016, the OECD committed itself to redefine the growth narrative to put people's well-being at the center of governments' efforts.

The Sustainable Development Goals (SDGs) is another set of measures being established.

What should be done to address GDP's deficiencies?

The goal displacement that results from the excessive focus on GDP should be addressed as it is damaging to economic efficiency and social wellbeing.

Increases in total nominal GDP generally overstate the performance of the economy because of price increases and increases in the population. To the extent that GDP continues to be used, it should be expressed primarily in real per capita terms.

A measure of wellbeing or genuine progress should be regarded by governments and society as the country's primary indicator of performance.

This measure should be adopted by governments as the official basis for planning, performance monitoring, evaluation and reporting in relation to policies, programs, services, projects and taxes and transfers.

Report by the Commission on the Measurement of Economic Performance and Social Progress⁶:

In their report, Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi recommend that the measure should:

- Focus on income and consumption rather than production
- Include wealth statistics ('as wealth or lack of it can influence consumption')
- Focus on the distribution of income, consumption and wealth
- Incorporate median consumption, income or wealth ('as it provides a better measure of what is happening to the 'typical' individual or household than average consumption, income or wealth')
- Include non-market activities.

⁶ Government of France, Report by the Commission on the Measurement of Economic Performance and Social Progress.

https://web.archive.org/web/20150318191216/http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf