

Alternative Measures to GDP

GDP:

**Measures the monetary value of final goods and services –
those that are bought by the final user -
produced in a country in a given period**

Counts all of the output generated within a country

Another way of looking at GDP =

**Consumption + Investment + Government spending + (Exports –
Imports)**

Nominal GDP = raw numbers unadjusted for inflation

**Real GDP adjusts numbers by fixing currency value, eliminating
distortions cause by inflation or deflation**

GDP by Country

(World Bank)

Country	\$ trillion	
USA	20.9	
China	14.7	
Japan	5.1)
Germany	3.9)
UK	2.7) 18.9
India	2.7)
France	2.6)
Italy	1.9)

Differences in GDP between Countries

(Definition of GDP is constant)

Factors explaining differences:

Population

Workforce

Natural resources

Physical capital

Human capital – skills, education

Technology

Rule of law, market freedom

Finance – exchange rate, access to finance

Why is GDP flawed in measuring a country's economy?

Exclusion of non-market transactions

Failure to account for the degree of income inequality in a society

Failure to indicate whether a nation's rate of growth is sustainable

“GDP measures everything except that which makes life worthwhile” – Senator Robert Kennedy

Doesn't measure:

- **Health,**
- **Education,**
- **Equality of opportunity,**
- **State of the environment,**
- **Sustainability**
- **Whether a “crash” is coming**

Kuznets – who constructed GDP in 1940s – warned that the metric included many goods that were:

Harmful – armaments

Useless – financial speculation

But excluded:

Essential - homemaking

Quality of Life
(OECD)

	USA	New Zealand
Housing	8.5	6.2
Income	9.0	4.3
Jobs	8.4	8.0
Community	6.3	8.9
Education	7.0	6.9
Environment	6.8	8.5
Civic Engagement	7.0	7.3
Health	8.9	9.5
Life satisfaction	7.4	8.9
Safety	7.5	7.6
Work-life balance	6.0	5.9

Fair Share
(Joseph Stiglitz - Scientific American)

Year	GDP per capita \$ 000s	Gini
1965	5	0.350
1975	10	0.350
1985	20	0.400
1995	30	0.425
2005	45	0.450
2015	55	0.460

Stiglitz

1995 joined Council of Economic Advisers for Clinton

Commented that “metrics paid too little attention to resource depletion and environmental degradation” “worked on a Green GDP which would take account of such losses, until congressional representatives from coal states found out & cut off funding”

Stiglitz says:

Food companies producing foods precipitating childhood diabetes, adverse health conditions & reduced life expectancy, promoted GDP.

Purdue Pharma, producing addictive opioids killing thousands, promoted GDP

Coal mining, which helped drive climate change, promoted GDP

Alternatives

1. Human Development Index (HDI)

UN developed & used for developing countries

Measures:

Life expectancy,

Average years of schooling,

Gross national income per capita

Pros:

Includes social development

Cons:

Hides inequality, personal freedom, gender disparity.

Ignores pollution, sustainability

2. Genuine Progress Indicator (GPI)

USA

Takes account of ozone depletion, crime, poverty

Nets positives & negatives

Pros:

Social

Environmental impacts

Volunteering

Cons:

Non-economic variables are too subjective

Doesn't assess state of business cycle

3. Thriving Places Index (TPI)

UK – “Centre for Thriving Places”

Includes:

Mental & physical health

Education

Work & local economy

“Green” infrastructure

Pros:

Adds dimensions other than economic

Land use

Recycling

Income disparity

Cons:

Too radical?

4. Green GDP

Measures cost of environmental damage by subtracting resource depletion & environmental degradation with local governments accountable for ecological conservation

Pros:

Effects of pollution

Resource degradation

Cons:

Local governments don't want economic growth statistics affected

5. Better Life Index (BLI)

OECD – measures wellbeing across 41 countries

Includes housing, income, community, environment, civic engagement, health

Pros:

Comprehensive picture of natural, human, economic & social capital

Cons:

May not include enough economic indicators

Some of criteria are vague

6. Inclusive Wealth Index (IWI)

UN developed; measures wealth of nations

Comprehensive analysis of productive base

Pros:

Injects “green” accounting into assessment

Assesses changes in human capital & natural capital, such as forests, water etc

Cons:

Needs to be part of broader macroeconomic planning

Pushpam Kumar: 44 out of 140 countries, 20+ years of changes in human & natural capital from 1992 to 2014: GDP +80% while IWI +45%, NC -40% HC +25%.

7. Genuine Savings Index (GSI)

World Bank inspired

Public investment of resource revenues & social costs of pollution emissions

Pros:

Encourages “discussion” around natural resources in a language familiar to finance policymakers

Cons:

Tools still not developed to measure reliably

8. Happy Planet Index (HPI)

UK’s New Economic Foundation

Combines:

Life expectancy

Wellbeing

Ecological footprint

Pros:

“Rounded” composite measure

Cons:

“Ecological footprint” is still contentious

Ignores happiness killers such as human rights violations & modern slavery

9. Gross National Happiness Index (GNH index)

Bhutan's measure for quality of life

4 pillars:

Socio-economic development

Cultural preservation

Environmental issues

Good governance

Pros:

Quality of life from social & environmental perspective

Cons:

Subjective measures

Other countries don't value spirituality as strongly as Bhutan

Moral Maze Radio 4 22nd March 2023 – Is Growth a False God?

“Unquestioned pursuit of growth – lose sight of bigger picture

“Against growth – death wish

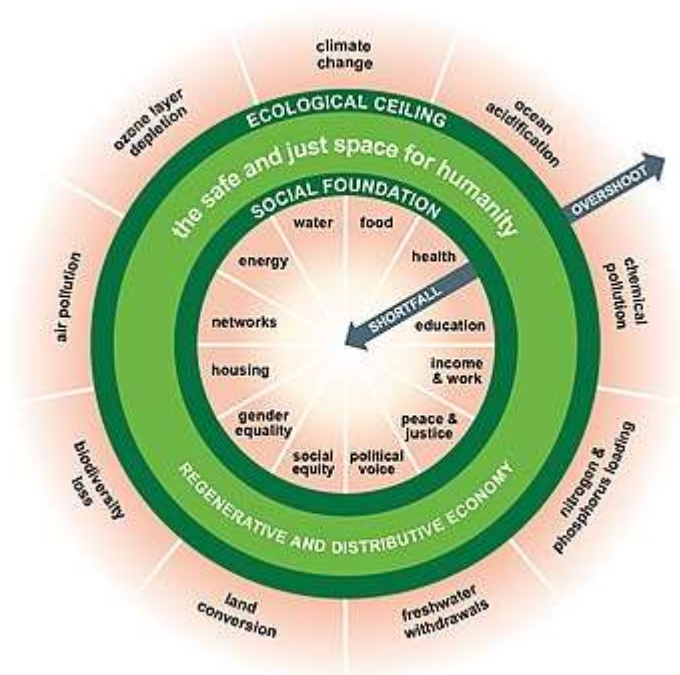
“Redistribution – who decides?

“USA v Denmark – higher GDP in USA, 4 years lower life expectancy

& more in poverty

“Use & reuse of materials.”

Doughnut Economics Kate Raworth



7 Steps

Embrace 21st Century Goals – needs of all people

See the Big Picture – the roles of household, the market, the state

**Nurture human nature – promote diversity, participation,
collaboration, community**

Think in systems

Be distributive

Be regenerative

Aim to thrive rather than grow