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## **GNP IS NOT HAPPINESS. SOCIETY NEEDS NEW GOALS.**

GNP IS THE WORLD'S MEASUREMENT OF DEVELOPMENT, BUT HOW GOOD IS IT, REALLY?

Without having analyzed it, I am confident that debates about the definitions of national account concepts rarely draw big headlines. But now it is heating up! At least, compared to the usual level of drama in the statistics world. At the center of an intense debate is GNP itself – gross national product. In 2004, the OECD launched the Global Project on Measuring the Progress in Societies. It has assembled statisticians at serious international conferences and has published such papers as *Measuring the Progress of Societies. An Introduction and Practical Guide*. Now the debate has received a boost from a high-profile initiative by French president Nicolas Sarkozy. In February 2008, he set up a commission, which included five Nobel Prize-winning economists led by Joseph Stiglitz and Amartya Sen, that presented recommendations for reforming the statistical system in September 2009.

The debate is important. GNP is often used as a measure of social development, and what we measure determines what we do. How we set success criteria and performance determines how we evaluate various policy options and how we design and develop new initiatives – whether in politics or in business. The debate on GNP is also an indication that society, not just statistics, has fundamentally changed. Our statistical standards were established and developed in the 1940s and 1950s. They have been adjusted often, but are conceptually unchanged. And, ever since, being able to say “GNP” with a straight face has been one of the criteria for being taken seriously in political debate. But the concept has always had problems and limitations, and now there is a growing impression of a widening gap between reality and the picture painted by the statistic.

The Stiglitz Report points to studies that are highly skeptical about the official statistics in many western

countries. Indeed, the commission is highly critical of GNP as a measure of societal conditions. These criticisms are summarized thus:

- # 1 GNP imperfectly reflects society's total output
- # 2 Total output is a flawed expression of a society's present status
- # 3 A society's present status is an inadequate reflection of its future

### **# 1 GNP IMPERFECTLY REFLECTS SOCIETY'S TOTAL OUTPUT**

The first point is purely technical. Measuring such a large, complex thing as total output is fraught with problems. These problems are widely recognized by economists, but are glossed over with the assumption that GNP is better than other measures.

Conceptually, GNP is based on the market and market prices: the assumption is that anything sold has a value for the buyer (that is, the price he is willing to pay). But not everything is sold in a market: for example, the public sector, which accounts for a third to a half of the GNP in industrialized countries. In GNP calculations, public sector GNP is reckoned from its costs. If public services can be provided more cheaply, GNP falls. Moreover, much informal production, where money is not exchanged, is not taken into account: childcare, cleaning, cooking, gardening, repairs, etc. But when these services are bought and paid for, they increase GNP.

It is remarkably difficult to capture dynamism and account for qualitative changes in production, whether it is public or private. The assortment of goods and services the economy produces and consumes is entirely different from that of five, 50 or 100 years ago. Moreover, as the as-

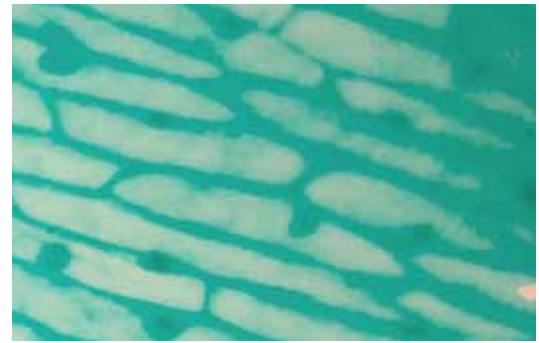
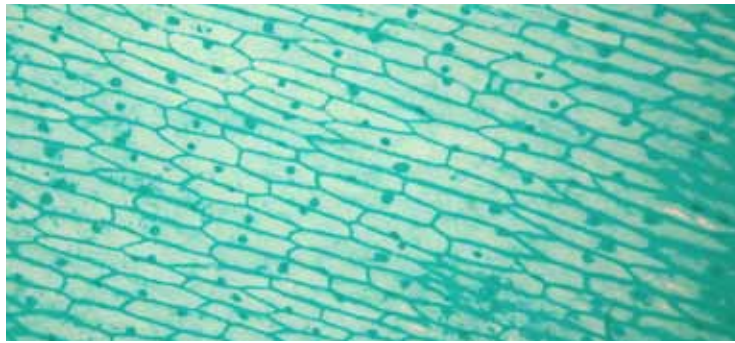


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sortment changes, it is basically impossible to express the development in a single figure. It is like comparing apples and oranges.

## # 2 TOTAL OUTPUT IS A FLAWED EXPRESSION OF A SOCIETY'S PRESENT STATUS

The second point is more qualitative and far more fundamental: is what we measure relevant? Are production and income - even if we could calculate them satisfactorily -- good proxies for the state of society, personal satisfaction and quality of life? The answer is a resounding no. Total income is a factor, but there are many others. One of the most obvious omissions is leisure time. For example, the US has a higher GNP per capita than Europe, but Americans work far more hours per year, have longer workweeks and fewer holidays. This should be considered when viewing the total picture.

Another omission is income distribution. Average GNP can grow when some people are making far more money while others are not. In the US, medium income has barely changed in 20 years, while GNP has increased smartly. Incomes have risen in the upper levels, and the further up the scale, the greater the increase. Similarly GNP omits such relevant factors as health, life expectancy, stress and many others.

Therefore, the Stiglitz Commission points us to research into happiness: research that tries to quantify how happy people are. It approaches happiness from both objective, measurable angles (for example, brain activity and the presence of stress indicators in the blood) and subjective, qualitative angles (for example, simply asking people how they feel). And quite subjectively, it is thought to be more appropriate to develop policy from a goal of making people content rather than increasing GNP as much as possible.

## # 3 A SOCIETY'S PRESENT STATUS IS AN INADEQUATE REFLECTION OF ITS FUTURE

Finally, there is the future. GNP may indicate production and income in a given year, but says nothing about the future. If society does not invest in machinery, buildings, land, infrastructure, education, etc., future production will fall. If society depletes natural resources - forests, fish,

raw materials - this depletion should be reckoned against income. This also applies to the environment: clean water, clean air, recreational nature areas, landscapes, etc. GNP, therefore, does not include sustainability. In fact, even in a narrow economic sense, GNP does not address sustainability: wealth and debt, assets and liabilities are not even reckoned. This prompted some commission members to suggest that one-sided focus on GNP may have helped amplify the huge economic bubble that burst into a global financial crisis.

Despite the massive criticisms of GNP, the French commission loses its way with its fairly modest proposals. For example, it believes that an overall measure cannot be developed to replace GNP. Instead, it aims to develop a comprehensive, standardized system of indicators for societal development, in which (an improved) GNP is one of several, and is complemented by other, equally relevant indicators.

Few would put their lives on the line for a new statistical system. And, alone, a new system cannot lead society forward. But looking at GNP from a more relative approach may be a useful step toward our better understanding of what anything is worth and what is worth anything.

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The French commission, headed by economists Joseph Stiglitz and Amartya Sen, sharply criticized GNP as a measure of community condition. The criticism can be summarized in three points:

- #1. GNP imperfectly reflects society's total output
- #2. Total output is a flawed expression of a society's present status
- #3. A society's present status is an inadequate reflection of its future

Source : Stiglitz, Joseph m.fl., september 2009: Report by the Commission on the *Measurement of Economic Performance and Social Progress*. Kan downloades på <http://www.stiglitz-sen-fitoussi.fr>

