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The Rise and Fall of the G.D.P.

By JON GERTNER

Whatever you may think progress looks like — a rebounding stock market, a new house, a good raise — the governments of the world have long held the view that only one statistic, the measure of [gross domestic product](#), can really show whether things seem to be getting better or getting worse. G.D.P. is an index of a country's entire economic output — a tally of, among many other things, manufacturers' shipments, farmers' harvests, retail sales and construction spending. It's a figure that compresses the immensity of a national economy into a single data point of surpassing density. The conventional feeling about G.D.P. is that the more it grows, the better a country and its citizens are doing. In the U.S., economic activity plummeted at the start of 2009 and only started moving up during the second half of the year. Apparently things are moving in that direction still. In the first quarter of this year, the economy again expanded, this time by an annual rate of about 3.2 percent.

All the same, it has been a difficult few years for G.D.P. For decades, academics and gadflies have been critical of the measure, suggesting that it is an inaccurate and misleading gauge of prosperity. What has changed more recently is that G.D.P. has been actively challenged by a variety of world leaders, especially in Europe, as well as by a number of international groups, like the [Organization for Economic Cooperation and Development](#). The G.D.P., according to arguments I heard from economists as far afield as Italy, France and Canada, has not only failed to capture the well-being of a 21st-century society but has also skewed global political objectives toward the single-minded pursuit of economic growth. "The economists messed everything up," Alex Michalos, a former chancellor at the University of Northern British Columbia, told me recently when I was in Toronto to hear his presentation on the Canadian Index of Well-Being. The index is making its debut this year as a counterweight to the monolithic gross domestic product numbers. "The main barrier to getting progress has been that statistical agencies around the world are run by economists

and statisticians,” Michalos said. “And they are not people who are comfortable with human beings.” The fundamental national measure they employ, he added, tells us a good deal about the economy but almost nothing about the specific things in our lives that really matter.

In the U.S., one challenge to the G.D.P. is coming not from a single new index, or even a dozen new measures, but from several hundred new measures — accessible free online for anyone to see, all updated regularly. Such a system of national measurements, known as [State of the USA](#), will go live online this summer. Its arrival comes at an opportune moment, but it has been a long time in the works. In 2003, a government official named Chris Hoenig was working at the U.S. [Government Accountability Office](#), the investigative arm of Congress, and running a group that was researching ways to evaluate national progress. Since 2007, when the project became independent and took the name State of the USA, Hoenig has been guided by the advice of the [National Academy of Sciences](#), an all-star board from the academic and business worlds and a number of former leaders of federal statistical agencies. Some of the country’s elite philanthropies — including the Hewlett, MacArthur and Rockefeller foundations — have provided grants to help get the project started.

Things have evolved since then. When I first visited Hoenig in Washington early last winter, [State of the USA](#) was a willfully obscure, nonpartisan, nonprofit organization operating out of an unremarkable office building near [DuPont Circle](#). Hoenig was amassing data on subjects like Americans’ education and health and getting ready to put the information online. But tucked inside the health care bill that [President Obama](#) recently signed, on Page 562, is a provision requiring Congress to help finance and oversee the creation of a “key national indicators” system — that is to say, Hoenig’s State of the USA will become a national-indicators panel, run by the National Academy of Sciences. Think of it as a report card meant to show a country’s citizens the exact areas — in health, education, the environment and so forth — where improvement is called for; such indicators would also record how we improve, or fail to improve, over time. The State of the USA intends to ultimately post around 300 indicators on issues like crime, energy, infrastructure, housing, health, education, environment and the economy. All areas of measurement will be chosen by members of the National Academy; all will be reviewed for rigor and accuracy by a panel of accomplished experts. With easy access to national information, Hoenig told me optimistically, Americans might soon be able “to shift the debate from opinions to more evidence-based discussions to ideally a discussion about what solutions are and are not working.”

Those involved with the self-defined indicators movement — people like Hoenig, as well as supporters around the world who would like to dethrone G.D.P. — argue that achieving a sustainable economy, and a sustainable society, may prove impossible without new ways to evaluate national progress. Left unanswered, however, is the question of which indicators are the most suitable replacements for, or most suitable enhancements to, G.D.P. Should they measure educational attainment or employment? Should they account for carbon emissions or happiness? As Hoenig himself is inclined to say, and not without some enthusiasm, a new panel of national measures won't necessarily settle such arguments. On the contrary, it will have a tendency to start them.

High-G.D.P. Man vs. Low-G.D.P. Man

For now at least, G.D.P. holds almost unassailable sway, not only as the key national indicator for the economic health of the United States but also for that of the rest of the world's developed countries, which employ a standardized methodology — there's actually a handbook — to calculate their economic outputs. And, as it happens, there are some good reasons that everyone has depended on it for so long. "If you want to know why G.D.P. matters, you can just put yourself back in the 1930 period, where we had no idea what was happening to our economy," William Nordhaus, a Yale economist who has spent a distinguished career thinking about economic measurement, told me recently. "There were people then who said things were fine and others who said things weren't fine. But we had no comprehensive measures, so we looked at things like boxcar loadings." If you compare the crisis of 1930 with the crisis of 2008, Nordhaus added, it has made an enormous difference to track what's happening in the economy through indexes like G.D.P. Such knowledge can enable a quick and informed policy response, which in the past year took shape as a big [stimulus package](#), for example. To Nordhaus, in fact, the G.D.P. — the antecedents of which were developed in the early 1930s by an economist named Simon Kuznets at the federal government's request — is one of the greatest inventions of the 20th century. "It's not a machine or a computer," he says, "and it's not the way you usually think of an invention. But it's an awesome thing."

G.D.P. statistics are calculated a dozen times a year on the fifth floor of a modern office building on L Street in Washington, where a government economist named Steve Landefeld huddles with a group of staff members and reviews a large pile of data compiled by his agency, the Bureau of Economic Analysis, a part of the [U.S. Department of Commerce](#). For an entire day, the suite of offices where Landefeld's group works is placed under what he calls "lockup." Cellphones are handed in; land lines and Internet connections are cut off; curtains are drawn tight. Only certain personnel are allowed in and out. The men and

women with Landefeld then spend the day following a process that has been refined over the past 50 years. It is a complicated affair, involving the convergence of some 10,000 streams of data that describe recent economic activity in the U.S., but the group's goal is fairly simple: to arrive at a single number and then explain it in a press release. By tradition, no one in the room says the final number aloud — a throwback to the old days, apparently, when the fear of hidden microphones prompted silent acclamation. The finished press release is photocopied a couple of hundred times and then locked up, except for a single copy delivered at the end of the day to the chairman of the president's [Council of Economic Advisers](#). Anyone who knows the figure at this point is forbidden to reveal it, lest its premature unveiling roil the global financial markets. Not until 8:30 the next morning will Landefeld's agency release the G.D.P. number to the rest of the world.

Government statisticians like Landefeld do not push any equivalency between an expanding G.D.P. and national progress. For them, G.D.P. is what it is and nothing more: a description of total national production that can be helpful when setting economic policy. The longtime tendency of politicians to use G.D.P. as a proxy for national well-being is not a practice the Bureau of Economic Analysis endorses or could necessarily control, even if it wanted to. That the Obama administration, for instance, has pointed to rebounding G.D.P. numbers rather than our unusually high unemployment numbers reflects a political calculation rather than a case of economists beating a drum for the glory of G.D.P.

But criticisms of G.D.P. go deeper than just its use, or misuse, by politicians. For years, economists critical of the measure have enjoyed spinning narratives to illustrate its logical flaws and limitations. Consider, for example, the lives of two people — let's call them High-G.D.P. Man and Low-G.D.P. Man. High-G.D.P. Man has a long commute to work and drives an automobile that gets poor gas mileage, forcing him to spend a lot on fuel. The morning traffic and its stresses aren't too good for his car (which he replaces every few years) or his cardiovascular health (which he treats with expensive pharmaceuticals and medical procedures). High-G.D.P. Man works hard, spends hard. He loves going to bars and restaurants, likes his flat-screen televisions and adores his big house, which he keeps at 71 degrees year round and protects with a state-of-the-art security system. High-G.D.P. Man and his wife pay for a sitter (for their kids) and a nursing home (for their aging parents). They don't have time for housework, so they employ a full-time housekeeper. They don't have time to cook much, so they usually order in. They're too busy to take long vacations.

As it happens, all those things — cooking, cleaning, home care, three-week vacations and so forth — are the kind of activity that keep Low-G.D.P. Man and his wife busy. High-G.D.P.

Man likes his washer and dryer; Low-G.D.P. Man doesn't mind hanging his laundry on the clothesline. High-G.D.P. Man buys bags of prewashed salad at the grocery store; Low-G.D.P. Man grows vegetables in his garden. When High-G.D.P. Man wants a book, he buys it; Low-G.D.P. Man checks it out of the library. When High-G.D.P. Man wants to get in shape, he joins a gym; Low-G.D.P. Man digs out an old pair of Nikes and runs through the neighborhood. On his morning commute, High-G.D.P. Man drives past Low-G.D.P. Man, who is walking to work in wrinkled khakis.

By economic measures, there's no doubt High-G.D.P. Man is superior to Low-G.D.P. Man. His salary is higher, his expenditures are greater, his economic activity is more robust. You can even say that by modern standards High-G.D.P. Man is a bigger boon to his country. What we can't really say for sure is whether his life is any better. In fact, there seem to be subtle indications that various "goods" that High-G.D.P. Man consumes should, as some economists put it, be characterized as "bads." His alarm system at home probably isn't such a good indicator of his personal security; given all the medical tests, his health care expenditures seem to be excessive. Moreover, the pollution from the traffic jams near his home, which signals that business is good at the local gas stations and auto shops, is very likely contributing to social and environmental ills. And we don't know if High-G.D.P. Man is living beyond his means, so we can't predict his future quality of life. For all we know, he could be living on borrowed time, just like a wildly overleveraged bank.

G.D.P. vs. Human Development Index

Simon Kuznets, the inventor of so-called national accounts — the collection of indicators calculated by the Bureau of Economic Analysis that now includes G.D.P. and a host of other economic and financial measures — actually harbored concerns about his creation from the start. As Steve Landefeld pointed out to me, Kuznets worried that the nation's economic activity might be mistaken for its citizens' well-being. Many years later, in Kuznets's Nobel Prize lecture in 1971, he also offered a list of ways his measures might be improved. "It seems fairly clear," he said then, "that a number of analytical and measurement problems remain in the theory and in the evaluation of economic growth."

Most criticisms of G.D.P. since then have tended to fall into two distinct camps. The first group maintains that G.D.P. itself needs to be fixed. High-G.D.P. Man and Low-G.D.P. Man have to become one, in effect. This might entail, for starters, placing an economic value on work done in the home, like housekeeping and child care. Activities that are currently unaccounted for, like cooking dinner at your own stove, could also be treated the same as activities that are now factored into G.D.P., like food prepared in a restaurant. Another fix

might be to cease giving only positive values to events that actually detract from a country's well-being, like hurricanes and floods; both boost G.D.P. through construction costs.

The second group of critics, meanwhile, has sought to recast the criticism of G.D.P. from an accounting debate to a philosophical one. Here things get far more complicated. The argument goes like this: Even if G.D.P. was revised as a more modern, logical G.D.P. 2.0, our reliance on such a measure suggests that we may still be equating economic growth with progress on a planet that is possibly overburdened already by human consumption and pollution. The only way to repair such an imbalance would be to institutionalize other national indicators (environmental, say, or health-related) to reflect the true complexity of human progress. Just how many indicators are required to assess societal health — 3? 30? 300, à la State of the USA? — is something economists have been struggling with for years as well.

So far only one measure has succeeded in challenging the hegemony of growth-centric thinking. This is known as the [Human Development Index](#), which turns 20 this year. The H.D.I. is a ranking that incorporates a nation's G.D.P. and two other modifying factors: its citizens' education, based on adult literacy and school-enrollment data, and its citizens' health, based on life-expectancy statistics. The H.D.I., which happens to be used by the United Nations, has plenty of critics. For example, its three-part weightings are frequently criticized for being arbitrary; another problem is that minor variations in the literacy rates of developed nations, for example, can yield significant differences in how countries rank.

One economist who helped create the Human Development Index was [Amartya Sen](#), a Nobel laureate in economics who teaches at Harvard. When I met with Sen on a recent evening in New York, he suggested that if I wanted to place the recent arguments about G.D.P., progress and economic growth into a historical context, I should really take a minute to hear why and how the Human Development Index came together.

One day in October 1953, Sen said, he was on his way to a lecture at Cambridge University when he fell into a conversation with a student named Mahbub ul Haq. The two young men — Sen was from India, Haq from Pakistan — soon became friends. “We often chatted in the evening,” Sen recalled. “Not so much about measurement. But we thought there was a silliness about identifying growth with development.” Many professors at Cambridge suggested that if a country could increase its G.D.P., then all the good things would follow. “But that seemed to both Mahbub and me to be wrong,” Sen said. A decade later, when Sen was visiting his friend at his home in Karachi, the two would look out over the city in the evenings and talk more about the problems with G.D.P. “Mahbub would say: ‘If India and

Pakistan were to grow as fast as we can possibly imagine, when you and I are 50, India and Pakistan's per capita income will only be getting close to Egypt's. Is that all we want?' ” In time, Haq began to consider measures (in health and education, mostly) that he thought could lead to policies that would make life in countries like Pakistan enormously better, even without large gains in G.D.P. This was not an argument against G.D.P., Sen emphasized to me. “It was an argument against relying only on G.D.P.” Many years afterward, when Haq asked Sen to help him devise the Human Development Index, Sen recoiled at the idea. “I told Mahbub that it's vulgar to capture in one number an extremely complex story, just as G.D.P. is vulgar. And he called me back and said: ‘Amartya, you're exactly right. What I want you to do is produce an index as vulgar as G.D.P. but more relevant to our own lives.’ ”

Sen said he eventually came around to seeing the wisdom in Haq's pragmatism. The H.D.I. made its debut in 1990; Haq died in 1998. Sen told me he thinks the index has been extremely useful for tracking the progress of the world's poorer nations. But since he and Haq did their initial work, Sen said, the world has changed. There are much better survey data now, which allow for new types of economic and social measurement. What's more, he added, the problems associated with climate change and sustainability have become far more pressing. These were two of the reasons that, a couple of years ago, Sen joined the Nobel laureate [Joseph Stiglitz](#) and the French economist Jean-Paul Fitoussi on a commission established by President Nicolas Sarkozy of France to consider alternatives to G.D.P.

The third reason was that he saw an opportunity to continue the work he began with Haq, but this time with respect to the world's richer nations. “Joe has a little bit of the pragmatism that pushed Mahbub,” Sen said, referring to Stiglitz, who was the driving force behind the commission's work. “You can see when push comes to shove, he'd say, ‘For God's sake, let's do something that changes the world.’ ”

The Stiglitz Commission and Its Dashboard

Several times last fall, I visited Stiglitz's office at Columbia University, where he is on the faculty, to talk about the shortcomings of G.D.P. Sometimes we chatted about accounting issues — why he thinks G.D.P. creates a distorted representation of our economic lives, for instance, and how that might be remedied. In his view, Americans would have had a much clearer picture of our progress over the past decade if we had focused on median income rather than G.D.P. per capita, which is distorted by top earners and corporate profits. “When you have increasing inequality, median and average behave differently,” Stiglitz said.

Real median household income has actually dipped since 2000. But G.D.P. per capita, he noted, has gone up. A president could go on the podium, Stiglitz said, and point to G.D.P. as proof that Americans are doing very well. But if you looked instead at median income, he said, “you could say, a) it’s not sustainable; and b) most people are actually worse off.” We need to focus on those median figures, he insisted.

Most frequently in our conversations, Stiglitz gravitated to the philosophical questions of measuring progress. What are the best indicators beyond G.D.P.? How do you actually pick the most important ones? As Stiglitz recounted, Sarkozy gave the commission freedom to tear apart G.D.P. as its members saw fit. No doubt, the French president saw political advantages in the undertaking. With a more comprehensive set of indicators, a leader trying to steer a course through a faltering economy could conceivably point to successes in areas other than jobs or productivity. “I can tell you what Sarkozy told me about what motivated him,” Stiglitz said. “What he said was that he felt this tension — he is told to maximize G.D.P. but he also knows as a good politician that what people care about are things like pollution and many other dimensions to the quality of life. Those dimensions aren’t well captured in G.D.P. And that puts him in a difficult position. When he comes up for election, people are going to grade him on G.D.P., but people are also going to grade on the quality of life. And so he sort of said, Can’t you in some way resolve this tension by constructing measures that don’t pose these dichotomies?”

The Stiglitz-Sen-Fitoussi Commission, as it eventually came to be known — its official title was the Commission on the Measurement of Economic Performance and Social Progress — grew to about two dozen members and met in Europe and the U.S. several times in 2008 and 2009. Many of the members leaned to the left, even as Sarkozy is characterized in French politics as leaning to the right. Stiglitz brought in, among others, the Princeton psychologist and Nobel laureate in economics Daniel Kahneman, as well as Enrico Giovannini, the president of the Italian National Institute of Statistics and the international economist most closely involved with the indicators movement over the past decade. In September, the commission issued a formidable report, nearly 300 pages long, that offered an exhaustive list of suggestions, some methodological and some philosophical, for measuring the progress of nations in the 21st century. “We very quickly came to a consensus that you weren’t going to get one number for a new G.D.P. number, but that it would have been nice,” Stiglitz told me. In fact, the commission endorsed both main criticisms of the G.D.P.: the economic measure itself should be fixed to better represent individuals’ circumstances today, and every country should also apply other indicators to capture what is happening economically, socially and environmentally. The commission sought a metaphor

to explain what it meant. Eventually it settled on an automobile.

Suppose you're driving, Stiglitz told me. You would like to know how the vehicle is functioning, but when you check the dashboard there is only one gauge. (It's a peculiar car.) That single dial conveys one piece of important information: how fast you're moving. It's not a bad comparison to the current G.D.P., but it doesn't tell you many other things: How much fuel do you have left? How far can you go? How many miles have you gone already? So what you want is a car, or a country, with a big dashboard — but not so big that you can't take in all of its information.

The question is: How many measures beyond G.D.P. — how many dials on a new dashboard — will you need? Stiglitz and his fellow academics ultimately concluded that assessing a population's quality of life will require metrics from at least seven categories: health, education, environment, employment, material well-being, interpersonal connectedness and political engagement. They also decided that any nation that was serious about progress should start measuring its “equity” — that is, the distribution of material wealth and other social goods — as well as its economic and environmental sustainability. “Too often, particularly I think in an American context, everybody says, ‘We want policies that reflect our values,’ but nobody says what those values are,” Stiglitz told me. The opportunity to choose a new set of indicators, he added, is tantamount to saying that we should not only have a conversation about recasting G.D.P. We should also, in the aftermath of an extraordinary economic collapse, talk about what the goals of a society really are.

Taking the Environment Into Account

The report from the Stiglitz-Sen-Fitoussi commission isn't a blueprint, exactly — it's more like open-source software, posted online for anyone to download, discuss and modify. It doesn't tell countries how they should measure progress. It tells them how they should think about measuring progress. One challenge here — something that the commission's members well understood — is that recommending new indicators and actually implementing them are very different endeavors. Almost everyone I spoke with in the indicators movement, including Chris Hoenig at State of the USA, seems to agree that at the moment our reach exceeds our grasp. When I met with Rebecca Blank, the under secretary of commerce for economic affairs, whose job it is to oversee the data agencies that put together G.D.P., she noted that new national measures depend on more than a government's willingness; they also necessitate additional financing, interagency cooperation and great leaps in the science of statistical analysis. Blank wasn't averse to some of the commission's recommendations — indeed, she recently endorsed the idea, proposed by Steve Landefeld at the Bureau of

Economic Analysis, that our national accounts add a “household perspective” that represents individuals’ economic circumstances better than G.D.P. “But some of the constraint is we don’t have the money to do it,” she told me, referring to various new measures. “Some of the constraint is we know how to do it, but we need to collect additional data that we don’t currently have. And some of the constraint is that we don’t really know how to do it quite yet.”

Environmental and sustainability indicators offer a few good examples of how big the challenge is. A relatively easy first step, several members of the Stiglitz commission told me, would be to build in a “depletion charge” to G.D.P. for the natural resources — oil, gas, timber and even fisheries — that a country transforms into dollars. At the moment, we don’t do this; it’s as if these commodities have no value until they are extracted and sold. A charge for resource depletion might not affect G.D.P. in the United States all that much; the country is too big and too thoroughly based on knowledge and technology industries for the depletion costs of things like coal mining and oil drilling to make much of an impact. On the other hand, in countries like Saudi Arabia and China, G.D.P. might look different (that is to say, lower) if such a charge were subtracted from their economic outputs. Geoffrey Heal, a professor at Columbia who worked on the environmental aspects of the commission’s report, told me that including resource depletion in the national accounts — something the U.S. considered in the early 1990s and then abandoned for political reasons — could be implemented within a year if the world’s developed nations agreed to do it. After that, he suggests, a next step might be to subtract from G.D.P. the cost of the health problems — asthma and early deaths, for instance — caused by air pollutants like sulfur dioxide.

But environmental accounting gets more difficult. “We can put monetary values on mineral stocks, fisheries and even forests, perhaps,” Heal says. “But it’s hard to put a monetary value on alteration of the climate system, loss of species and the consequences that might come from those.” On the other hand, Heal points out, you have to decide to measure something difficult before you can come up with a technique for measuring it. That was the case when the U.S. decided to create national accounts on economic production during [the Great Depression](#). What the Stiglitz commission ultimately concluded was that it’s necessary to make a few sustainability dials on the dashboard simply raw data — registering things like a country’s carbon footprint or species extinctions — until we figure out how to give the effects approximate monetary values. Maybe in 10 years, Heal guesses, economists would be able to do that.

To Heal, making a real and rapid effort at calculating these costs and then posting the

information is imperative. According to Heal, we have no sense of how much “natural capital” — our stocks of clean air and water and our various ecosystems — we need to conserve to maintain our economy and our quality of life. “If you push the world’s natural capital below a certain level,” Heal asks, “do you so radically alter the system that it has a long-term impact on human welfare?” He doesn’t know the answer. Yet, he adds, if we were to pass that point — and at present we have no dials to indicate whether we have — then we couldn’t compensate for our error through technological innovation or energy breakthroughs. Because by then it would be too late.

Putting a Number on Happiness

As difficult as it might be to compile sustainability indicators, it’s equally challenging to create measures that describe our social and emotional lives. In this area, there’s a fair amount of skepticism from the academic establishment about putting happiness onto a national dashboard of well-being. William Nordhaus of Yale told me that some of the measurements are “absurd.” Amartya Sen, too, told me that he has reservations about the worth of statistics that purport to describe human happiness.

Stiglitz and his colleagues nevertheless concluded that such research was becoming sufficiently rigorous to warrant its possible inclusion. At first the connection to G.D.P. can be puzzling. One explanation, however, is that while our current economic measures can’t capture the larger effects of unemployment or chronic depression, providing policy makers with that information may influence their actions. “You might say, If we have unemployment, don’t worry, we’ll just compensate the person,” Stiglitz told me. “But that doesn’t fully compensate them.” Stiglitz pointed to the work of the Harvard professor Robert Putnam, who served on the Stiglitz-Sen-Fitoussi commission, which suggests that losing a job can have repercussions that affect a person’s social connections (one main driver of human happiness, regardless of country) for many years afterward.

When I caught up with Putnam, he said that the “damage to this country’s social fabric from this economic crisis must have been huge, huge, huge.” And yet, he noted, “We have plenty of numbers about the economic consequences but none of the numbers about the social consequences.” Over the past decade, Putnam has been working on measures — having to do with church attendance, community involvement and the like — to quantify our various social links; just recently, the [U.S. Census Bureau](#) agreed to include questions of his in some of its monthly surveys. Still, his efforts are a work in progress. When I asked Putnam whether government should be in the business of fostering social connections, he replied, “I don’t think we should have a government Department of Friendship that introduces people

to one another.” But he argued that just as registering the social toll of joblessness would add a dimension of urgency to the unemployment issue, it seemed possible that measuring social connections, and putting those measures on a national dashboard, could be in society’s best interests. As it happens, the Canadian Index of Well-Being will contain precisely such a measure; and it’s very likely that a related measure of “social capital,” as it’s often called, will become a State of the USA indicator too. “People will get sick and die, because they don’t know their neighbors,” Putnam told me. “And the health effects of social isolation are of the same magnitude as people smoking. If we can care about people smoking, because that reduces their life expectancy, then why not think about social isolation too?”

It seems conceivable, in fact, that including various measures of emotional well-being on a national dashboard could lead to policies quite different from what we have now. “There’s an enormous inequality of suffering in society,” Daniel Kahneman told me recently. By his estimate, “if you look at the 10 percent of people who spend the most time suffering, they account for almost half of the total amount of suffering.” Kahneman suggested that tremendous social and economic gains could therefore be made by dealing with the mental-health problems — depression, say — of a relatively small fraction of the population. At the same time, he added, new measures of emotional well-being that he has been working on might soon give us a more enlightened perspective on the complex relationship between money and happiness.

Currently, research suggests that increased wealth leads us to report increased feelings of satisfaction with our lives — a validation, in effect, that higher G.D.P. increases the well-being in a country. But Kahneman told me that his most recent studies, conducted with the Princeton economist Angus Deaton, suggest that money doesn’t necessarily make much of a difference in our moment-to-moment happiness, which is distinct from our feelings of satisfaction. According to their work, income over about \$70,000 does nothing to improve how much we enjoy our activities on a typical day. And that raises some intriguing questions. Do we want government to help us increase our sense of satisfaction? Or do we want it to help us get through our days without feeling misery? The two questions lead toward two very different policy options. Is national progress a matter of making an increasing number of people very rich? Or is it about getting as many people as possible into the middle class?

The Political Resistance

Over the past few months, the recommendations of the Stiglitz-Sen-Fitoussi commission

have been taken up for debate by the [European Union](#)'s statistical office as well as by the Paris-based Organization for Economic Cooperation and Development, which serves as a kind of policy forum for the world's developed countries. To Stiglitz and his colleagues, an ideal outcome would be a consensus by these international agencies — and, in turn, the world's governments — to start measuring progress through a dashboard with a dozen or so dials, moving the focus away from G.D.P. and onto other aspects of the economy, society and environment.

When I spoke with Enrico Giovannini, the head of Italy's national statistics agency, he said, "The good news, I think, is that at the international level there are signs that something is changing." Giovannini then ticked off a list of a half-dozen countries — including Germany, the United Kingdom and France — where top officials have aligned themselves with an expanded focus on "well-being" rather than growth as a measure of progress. At the same time, he noted, the Human Development Index is planning its own revision later this year, a project with which Giovannini is involved. And the H.D.I. planners, Giovannini said, were considering other progress indicators that have been recommended by the Stiglitz commission.

As for the effects of such changes, Stiglitz told me, "What we measure affects what we do, and better measurement will lead to better decisions, or at least different decisions." But until the developed nations of the world actually move beyond G.D.P. — a big if — this remains a reasoned hypothesis only. A lingering question is whether some government officials, perceiving dangers in a new measurement system, might conclude that such an overhaul would wreak political havoc and therefore ought to be avoided. A heightened focus on environmental indicators, for starters, could give environmental legislation a far greater urgency. And a revision of economic measures presents other potential policy complications.

It has long been the case, for example, that the G.D.P. of the United States outpaces that of European countries with higher taxes and greater government spending; it has thus seemed reasonable to view our economic growth as a vindication of a national emphasis on free markets and entrepreneurship. But things look different if you see the measure itself as flawed or inadequate. We take shorter vacations than Europeans, for instance, which is one reason their G.D.P. is lower than ours — but that could change if our indicators start putting a value on leisure time. Some of the disparity, meanwhile, between the U.S. and various European countries, Stiglitz argued, is a statistical bias resulting from the way G.D.P. formulas account for public-sector benefits. In other words, the services received from the

government in a country like Sweden — in public education, health care and child care, among other things — are likely undervalued. Rejiggering the measures of prosperity would almost certainly challenge our self-perceptions, Stiglitz said, perhaps so much so that in the U.S. we might begin to ask, Is our system working as well for most people as we think it has been?

State of the USA has its own political hurdles to overcome: until Congressional leaders appoint a bipartisan commission for the administration of the Key National Indicators System (something they're required to do promptly, according to the new health care legislation but had not done by early May), the indicators system, and to some extent State of the USA, are in limbo. All the same, a huge system of measurement like State of the USA may be more politically palatable to America's elected officials than the smaller dashboard envisioned by the Stiglitz commission. For one thing, it makes the definition of progress more diffuse. If hundreds of measures — economic, environmental, educational and the like — are thrown into the mix, users can pick and choose their markers of progress. And argue about them. Now, this might push us into a situation akin to what Simon Kuznets found himself in when he was formulating ways to measure the national economy — confronting all sorts of data but no real coherence. But that's not how Hoenig — or Stiglitz, for that matter — sees it. “The whole idea here, in how it relates to Stiglitz's report, is that this is a dashboard, with real data, that's going to be live, now, on real issues,” Hoenig told me. His view is that the project will make the U.S. the first country in the world whose population enjoys what he called “a shared, quantitative frame of reference.” The size of the indicators panel is not a stumbling block; if anything, he argued, it's an asset for an information-based society. The G.D.P. and other indexes, Hoenig said, are “an artifact of a world before the Web.” For his part, Stiglitz sees the State of the USA as a complement to any future dashboard system. A small dashboard of indicators could be useful for some purposes, a large panel for others. “When you go to a good doctor today, they don't just look at one or two vital signs,” he said. “They look at a hundred statistics.” State of the USA, he told me, could be a “rich diagnostic tool” for evaluating the health of the country.

It's worth noting, in any event, that despite its size, State of the USA is not kludgy. When Hoenig showed me the site recently — most of it remains password-protected until its anticipated summer unveiling — it was simple, with a click of a tab, to see how the U.S. measured up in various ways, from health-insurance coverage to obesity, on a state-by-state basis. It was fairly evident that the site could actually fulfill one of the legislative demands of the national-indicators system, which is to allow Americans to track how (or whether) our new health care legislation changes our health care costs and perhaps our health. It was

likewise possible to imagine that if new measures of happiness, say, or environmental sustainability eventually pass statistical muster, they, too, could find places as State of the USA indicators.

Clicking around his site with me, Hoenig paused to say: “Right now, we actually don’t know where this country is going. But this is an opportunity to grasp that.” And then he kept on clicking.

Jon Gertner, a contributing writer, last wrote for the magazine about calorie restriction.

While Centre's total debt as percentage of GDP fell to 46.5% in 2017-18, States' debt rose to 24%. This, combined with the fact that ratings agencies have predicted that the combined fiscal deficit of the States to be 3.2% of GDP in financial year 2020 (higher than the prescribed 3%), and it begins to look increasingly unlikely that the States will meet their 20% debt-GDP ratio target by 2023. The report, however, says that the States do have some fiscal space to reduce their borrowing in the coming years due to the large cash surpluses they hold.

The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000, by Paul Kennedy, first published in 1987, explores the politics and economics of the Great Powers from 1500 to 1980 and the reason for their decline. It then continues by forecasting the positions of China, Japan, the European Economic Community (EEC), the Soviet Union and the United States through the end of the 20th century.

Super short video from Project Syndicate on whether GDP as measurement tool has reached the end of a long run. The Rise and Fall of GDP. Print page. Share

Geoff Riley FRSA has been teaching Economics for over thirty years. He has over twenty years experience as Head of Economics at leading schools. He writes extensively and is a contributor and presenter on CPD conferences in the UK and overseas. You might also like. Gains from Trade - Using Supply and Demand Diagrams.

In 1937, Simon Kuznets, an economist at the National Bureau of Economic Research, gave them what they were looking for: GDP. Until the 1930s, national governments' only aggregate statistical measurement of the economy was tax estimates. But, after the Great Depression, US policymakers sought a new way to understand the economy's health. In 1937, Simon Kuznets, an economist at the National Bureau of Economic Research, gave them what they were looking for: GDP.

Support High-Quality Commentary. US President-elect Joe Biden may have promised a "return to normalcy," but the truth is that there is no going back. Domestic Product (GDP) is an annual measure of the total value of output in a country (Gertner, 2010). Its prime inventor and advocate, with the gravitas of a Nobel laureate in the dismal science, is the personality of Simon Kuznet, who developed this concept in his US congressional report. of 1934. The Bretton Woods conferences of 1944 went ahead to popularized it as the core tool.

A percentage point rise in GDP, unemployment falls by 1 percentage. (Dickinson, 2011). In the latest onslaught against the iron metric of GDP as an economic measure, the New Zealand Prime Minister, Jacinda Ardern became the first leader to completely ditch the GDP as an economic measure and as such his country become the first to do so. (Times, Vol. 194, 2019).