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Let's Count What Really Matters

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MEXICO CITY – Despite the well-known problems with using gross domestic product as an indicator of human development, policymakers around the world still seem to be obsessed with it. Governments seek to promote GDP growth through all possible means, often regardless of the wider consequences for the planet and the distribution of rewards. The current focus on quarterly growth reflects a particularly unhealthy short-term perspective. And yet the International Monetary Fund and other multilateral organizations refer to GDP in all assessments of economic performance and make it the sole focus of their forecasts.

But the concept of GDP is deeply flawed. Aggregate or per capita figures are obviously blind to the distribution of income, and GDP is increasingly unable to measure either quality of life or the sustainability of any particular system of production, distribution, and consumption.

Moreover, because GDP in most countries captures only market transactions, it excludes a significant amount of goods and services produced for personal or household consumption. By making market pricing the chief determinant of value, irrespective of any activity's social value, GDP massively undervalues what many now recognize (especially in light of the COVID-19 pandemic) as essential services relating to the care economy.

GDP correspondingly overvalues activities, goods, and services that are priced higher because of the oligopolistic structure of markets – financial services being a particularly telling example. The obsession with economic growth, independent of other indicators of well-being, leads to problematic assessments of the actual performance of economies and to poor policy decisions and outcomes.

That is why there is now much more discussion within the United Nations and its Statistical Commission about moving beyond GDP. UN Secretary-General António Guterres has repeatedly stressed that GDP is no longer the correct way to measure “richness,” and argues that it is “time to collectively commit to complementary measurements.”

This challenge was taken up by the UN's High-Level Advisory Board on Economic and Social Affairs (I am a member), which recently issued a compendium that considers six big questions relevant to achieving a just and sustainable recovery. One important recommendation involves suggesting alternatives to GDP that national policymakers and international organizations should track on a regular basis. The idea is to provide a dashboard that captures some of the key socioeconomic variables that policymakers should monitor and that should be used to judge their performance.

What are these alternative measures? One is a labor-market indicator: the median wage multiplied by the employment rate. The median wage is a better indicator of the conditions faced by most workers than the average (mean) wage, which can be overly influenced by high remuneration at the top. And the employment rate is a useful indicator not only of the state of demand in the labor market, but also

of the extent of unpaid labor typically performed mostly by women (since the greater their involvement in such work, the less likely they are to be able to engage in paid employment).

In the United States and the United Kingdom, for example, my estimates suggest that per capita GDP dramatically outperformed the labor-market indicator in the period from 2009 to 2020, with a widening gap between the two. In India, the two measures actually moved in different directions, with the labor-market indicator declining even as per capita GDP increased.

Another alternative metric is the proportion of the population that can afford a nutritious diet (according to the Food and Agriculture Organization's definition). This indicator is likely to become even more important as the global food crisis worsens, and it does not necessarily move in line with income poverty. In India, for example, 71% of the population cannot afford a nutritious diet, while the government and the World Bank's official poverty estimates range from 13% to 22%.

The third measure is a time-use indicator, disaggregated by gender. This is particularly useful for capturing the incidence of unpaid care work, which is still largely performed by women. This measure shows the distribution of time between paid work, unpaid work, and personal leisure and relational time. Many countries now undertake time-use surveys. These need to be conducted on a regular basis everywhere, with the requisite financial and technical resources provided to countries that need them.

Gender-based analysis of time-use data is critical for understanding people's social and material conditions. It shows the extent to which people experience time poverty, which is far more prevalent among women and the poor. Time-use indicators also reveal the extent to which people provide unpaid labor for society, especially care services that are otherwise unrecognized and unvalued.

A fourth crucial indicator, vital in dealing with ongoing climate change and its implications, is per capita carbon dioxide emissions. While this metric does not capture all of the environmental effects of human activity, the carbon footprint (measured in terms of total consumption, not production) may closely track other environmental indicators, including those measuring pollution and depletion of nature.

Here, policymakers must also pay attention to distributive fairness. The ratio of the top 10% of the population's per capita CO₂ emissions to those of the bottom half has increased in most countries. Even more strikingly, the per capita CO₂ emissions of the richest 1% of the global population have increased dramatically and are now set to be 30 times greater than the level compatible with limiting global warming to 1.5° Celsius by 2030.

If all countries tracked these four indicators regularly, we would have a very different view of comparative economic performance from the one that emerges from simplistic measures of per capita or aggregate GDP. And public awareness of this revised view of reality could well mobilize support for fundamental different policies at the national and international level.

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