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## **GDP and Beyond**

### **Summaries from the 2020 Annual Meeting of the American Economic Association**

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*The views expressed in this paper are those of the author and do not necessarily represent the U.S. Bureau of Economic Analysis or the U.S. Department of Commerce.*

Discussions at the OECD about the desirability of the then reigning quantitative growth paradigm date back at least to 1970 when the OECD Ministerial Council devoted significant time to discussing the “*Problems of modern societies.*”<sup>1</sup> The debate has continued ever since and led to steady advances on social and environmental indicators by the OECD Secretariat. In 2009, the Stiglitz-Sen-Fitoussi report (followed by Stiglitz-Fitoussi-Durand in 2018) brought strong new impetus to the Beyond GDP agenda when French President Nicolas Sarkozy raised the choice, use and communication of key societal indicators to a new political level.<sup>2</sup> At the OECD, one of the consequences was the launch of the *OECD Better Life Initiative* in 2011 and the systematic development of a measurement program on well-being indicators. This concerned improved measures of material well-being in a national accounts framework, a dashboard of quality of life indicators around the newly introduced *How’s Life?* publication and systematic efforts to account for the interactions between the economy and the environment. These three avenues are briefly described in what follows.

## Measurement of material well-being inside the national accounts...

GDP growth is the most widely quoted indicator of economic performance, but—as an indicator of mainly market production—it may not give an accurate picture of people’s economic well-being. A first step towards determining how well people are doing economically is emphasizing the use of household-related variables such as disposable household income or consumption over economy-wide indicators. The OECD’s Household Dashboard,<sup>3</sup> developed for this purpose, shows that aggregate measures of economic activity can indeed significantly deviate from those in the household sector.

But even household-related aggregates are oblivious to the distribution of income *between* households and the OECD, in close collaboration with Member countries, developed a methodology to ventilate household sector aggregates (income, consumption, wealth) in the national accounts by income group (Fesseau and Matteotti 2013, Zwijnenburg et al 2017). Such data, in turn, is a building block for constructing a national accounts based measure of economic social welfare (Jorgenson and Schreyer 2017). Australia, Canada, France, U.K., the Netherlands, New Zealand and the U.S. have started to publish data on distribution adjusted national accounts.

Another question is whether the agreed convention on which type of production is included in GDP and income needs expanding. The single most important example here is unpaid services that private households produce, essentially for themselves. While this debate has been around for decades, it has gained new momentum through the possibilities that digitalization has brought to households’ material well-being. Complementing official data with indicators of unpaid household services is thus more important than ever to draw a more complete picture of people’s material well-being.<sup>4</sup>

## ...and quality of life indicators...

The OECD framework for measuring well-being reflects elements of the capabilities approach (Sen 1985) with many dimensions addressing the factors that can expand people’s choices and opportunities to live the lives they value. Next to income, they include health, work-life balance, education, personal security etc. The approach to measuring current quality of life and well-being has several important features: (i) it puts people at the centre of the assessment; (ii) it focuses on well-being outcomes (e.g., health status) rather than inputs or outputs that may be used to deliver these outcomes (e.g., health expenditure); (iii) it includes both objective and subjective outcomes; and (iv) it considers the distribution of well-being outcomes across the population. Indicators are published periodically as part of the OECD’s *How’s Life?* series, the latest edition being 2020. The publication also covers economic, environmental and social assets as their development connects current well-being with that of future generations, the main element in the assessment of sustainability.

### **...gauging the economy-environment interaction...**

In this context, any *Beyond GDP* measurement agenda needs in particular to track the links between economic activity and the environment. Since the adoption of the System of Environmental-Economic Accounting (SEEA) Central Framework in 2012, the international community has a tool that permits full integration of environmental statistics with national accounts – a key element for the analysis of their interactions. The OECD has been an active contributor in the conception of the SEEA in the first place and has since focused on developing methodologies for measuring sub-soil assets as well as drawing up air emission accounts that are fully consistent with national accounts activity variables (Flachenecker et al 2017).

### **...so that well-being makes its way into policy**

Measurement is important but what counts at the end of day is whether new measures lead to modified policies. It is encouraging to observe that countries are gradually adopting a well-being lens to budgeting, policy design and assessment. This includes for instance a 2015 budget law in France that requires the government to report on *New Wealth Indicators* and to assess main reforms against them; *New Measures for Well-Being* that the Swedish government presents annually or a *Well-Being Budget* launched in New Zealand in 2019 along with the Treasury's *Living Standards Framework*, a practical tool for analysts and the assessment of policy options. Further examples come from the United Kingdom and Slovenia. They all evolve around enhancing the evidence base for government, businesses and communities around well-being.

### **Conclusions**

For several decades, the OECD has been active in pursuing measurement of our economies and societies. These efforts have gathered pace over recent years. Considerable activities are also seen in countries, both to enrich the current system of national accounts and to develop separate frameworks that better gauge citizens' contemporary and future well-being. It is also encouraging to observe that the broader well-being agenda has been taken up in policy design in a number of countries.

Many challenges remain, including better communication and usage of indicators and the development of new data sources needed to address several measurement gaps. Finally, the envisioned update of the System of National Accounts will be an important opportunity to articulate the links between core economic accounts, broader well-being measures and the environment. There is no shortage of work.

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1. Around the same time, a highly influential departure point in academia for the Beyond GDP question was Nordhaus and Tobin's (1972) book *Is Growth Obsolete?*
  2. Recent comprehensive overviews of the institutional and academic debate around (Beyond) GDP are Jorgenson (2018) and Fleurbaey and Blanchet (2013).
  3. <https://www.oecd.org/sdd/na/household-dashboard.htm>
  4. There is a stream of relevant work here, including Landefeld and McCulla (2000), van de Ven et al (2018) although many methodological issues arise (Schreyer and Diewert 2014).

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