
**Alternative indicators to GDP:
Towards a just measurement of economic activity**

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Since the eruption of the global financial crises in 2007-2008, extensive efforts have been exerted to review one of the most important products of economic thought in the 20th century: The Gross Domestic Product (GDP). The crises and the inability to foresee it led to the questioning of many givens, on top of which is whether the GDP is the indicator that is capable of offering an accurate understanding of economic activity, especially that it failed to provide any signs of an imminent crisis. While the global financial crisis triggered general criticism of economic policies, special emphasis was placed on the drawbacks of the GDP as the indicator that measures the state of an economy and foresees its development and evaluates financial and economic policies and to which all economic phenomena are attributed including public debts, average personal income, total tax, public spending on education and healthcare... etc. For years, the flaws of the GDP were referred to briefly since it overlooked several aspects of the economic activity that are not subject to transactions and are not a commodity that is bought and sold in the market. However, those flaws were never analyzed thoroughly and were totally disregarded in the policy-making process.

In the aftermath of the crisis, the American and French governments attempted to formulate an alternative indicator

that is more efficient than the GDP then the efficiency of other indicators was also examined. Already existing indicators were modified while new ones were created by different international entities and by civil society in individual countries. Modified and new indicators were tested on the ground as several countries started using them to measure economic activity.

This paper examines the history and significance of the GDP, the repercussions of using it as the sole indicator, and the means of developing alternative indicators that are in line with social justice. The paper will also look into the cases in which alternatives were implemented such as Costa Rica and New Zealand and address the possibility of applying them to the Arab region. In addition, the paper will analyze different alternatives to GDP and their advantages and disadvantages.

First: Gross Domestic Product (GDP): History, significance, and crises:

“GDP is a poor measure of progress – it increases as we destroy the natural capital of the planet.

We need economic growth, but we cannot continue to measure it using GDP.”

World Economic Forum²⁷

A financial crises was the main reason for reviewing the efficiency of the GDP as an indicator and two major crises in the 20th century were the main reason for inventing it: the first is financial—the Great Depression in the 1930—and the second is military and political—World War Two. Following the Great Depression, American economist and statistician of Belarussian descent Simon Kuznets was assigned the mission of formulating a system that measures economic activity in the United States. After three years of working on American national statistics, he presented the first account of American gross domestic product in 1934 in a report submitted to the Congress. The report was modified until it reached its final shape in 1937: “His idea is to capture all economic production by individuals, companies, and the government in a single measure, which should rise in good times and fall in bad. GDP is born.”²⁸ Kuznets played a major role in promoting the new indicator as well as coordinating between statisticians and government officials and shortly after the GDP became a global indicator.

27- Pooran Desai. “GDP is destroying the planet. Here is the alternative.” *World Economic Forum*, May 31, 2018: <https://is.gd/qxYXNq>

28- Elizabeth Dickenson. “GDP: A brief history.” *Foreign Policy*, Jan. 3, 2011: <https://is.gd/H7EiG7>

In the aftermath of Breton Woods Conference, which established the World Bank and the International Monetary Fund (IMF) and reformulated global economy, the GDP was adopted as the main tool for measuring economies on the global level.²⁹ The GDP became more than a statistical tool, especially when it got linked with a decline in unemployment rates, which came to be known as Okun Law. According to the law, which studies the relationship between economic growth and unemployment, there is a drop of 1% in unemployment when the GDP grows by 3%.³⁰ The GDP turned into the ultimate indicator of progress and the main economic evaluation tool on both national and international levels, hence it was according to the GDP that economic, as well as political, “rules of the game” were set. This was the case for different forms of capitalism and socialism, including state capitalism in the Eastern Bloc, for the GDP became more dominant than any political ideology. It was, therefore, “cross-ideological.”³¹ Based on GDP, the world was divided into developed and developing countries and entire alliances, such as the G7 and the G20, were forged based on it. In fact, the GDP is one of the most important determinants of state policies in modern times.

29- Ibid

30- Ryan Fuhrmann. “Okun’s Law: Economic Growth And Unemployment”: <https://is.gd/ODLxPT>

31- Lorenzo Fioramonti. *The World after GDP*. London: Polity Press, 2017.

Despite this global consensus and regardless of social and political repercussions, there is no agreement on the ways of calculating the GDP, for the process of collecting statistics to calculate the GDP was not unified. In fact, GDP approaches in national accounts might differ from one country to another and at times within the same country. The calculation process usually takes place away from public opinion despite the possible consequences. In many cases, changing GDP approaches might have grave consequences. In Ghana in 2010, a change of approach raised the country from low-income to middle-income, In Greece, GDP statistics before and during the debt crisis in 2013 became the subject of a heated debate that reached accusing the person in charge of the statistics of high treason.³²

Calculating the GDP is not the only issue, for there are major defects that result from what the calculation focuses on and what it overlooks. The GDP measures all final goods and services produced in a given country within a given time that is usually a minimum of three months. The GDP can be measured in three different ways, all of which should give the same result: production, income, and speculated expenditure ³³.

32- Wael Gamal. "GDP: The most dangerous economic invention in the 20th century [Arabic]." *Assafir al-Arabi*, June, 25, 2014: <https://is.gd/PE2tso>

33- The GDP is usually measured through two formulas: $C+I+G+(X-M)$ of the product and $COE+R+I+P+C+T+D+N$ of the income.

The GDP is linked to goods that have a price and are offered in the market. This is a centralized approach that excludes a large number of economic activities from the calculation. These include everything that is instantly produced and consumed such as some agricultural products produced by farmers and goods exchanged through the barter system that is quite common in developing countries. The calculation of the GDP also excludes women's domestic work because it is not paid and the informal economy even though some countries started including it such as Italy.³⁴ With the challenges the world is facing as a result of climate change, it became clear that GDP overlooks the environment, the decline of natural resources, and environmental impacts of growth. The GDP was also criticized in the aftermath of the 2007-2008 global financial crisis for not revealing extremely important phenomena pertaining to gaps in income, wealth, and job opportunities, which means it does not realistically reflect people's conditions. The crises posed a number of important questions about funding and financial activities in the stock market and how they are being calculated in the national income, hence whether they are positively contributing to the GDP³⁵. American journalist

34- Diane Coyle. *GDP: A brief but affectionate history*. New Jersey: Princeton University Press, 2014.

35- Ibid.

and writer Jon Gertner asserts that the GDP “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.”³⁶

In addition to all those setbacks, the GDP promotes a philosophy that positions the market as the sole reference for the creation of value in the economy. This means it equates, for example, between spending a million pounds on the manufacture of polluting cement with the same amount spent on education. Economist Diane Coyle underlines the fact that the GDP fixates on “on a snapshot of statistics,” hence offering a short-term vision that goes back a few months. The GDP measures the present and hardly forecasts future possibilities. For Coyle, the GDP is “a mirror on the market,” but cannot “rule our lives”.³⁷ When the World Bank released a report on economic discrimination against women, it focused on how much women’s access to the market would add to the domestic product .³⁸ Therefore, everything, including rights, is determined through domestic product and market value.

36- Jon Gertner. “The Rise and fall of the G.D.P.” *The New York Times Magazine*, May 13, 2010: <https://is.gd/E8EcRT>

37- Diane Coyle. “GDP is a mirror on the markets. It must not rule our lives.” *The Guardian*, Nov. 20, 2014: <https://is.gd/Rki3aP>

38- “Unrealized Potential: The High Cost of Gender Inequality in Earnings.” World Bank. May, 30 2018: <https://is.gd/mlf9Gt>

As a result of the financial crisis, the World Economic Forum in Davos and the International Monetary Fund started criticizing the GDP for focusing on economic growth while overlooking growing inequality and environmental deterioration. “Adam Smith’s ‘invisible hand’ is not working in the way we need it to work. The problem runs deep and can’t be solved unless we look at the world differently.”³⁹

Second: Attempts at formulating alternative indicators:

Even though the global financial crisis in 2007-2008 was the reason for criticism levelled against the GDP and started a series of attempts at formulating alternative indicators, the first of alternative indicators emerged in the early 1990s: the Human Development Index (HDI) employed by the United Nations Development Program (UNDP). The index is based on the assumption that income is only one of the components of welfare, which is multidimensional, and on the fact that development is a process that should give people more choices. This index, which covers around 157 countries, falls under the category of dashboard indicators that combines different indicators together such as health, poverty, education, illiteracy... etc. Although the HDI was the only indicator that emerged in the midst of the GDP mo-

39- Pooran Desai. Op. Cit.

Geoffrey Bannister and Alexandros Mourmouras. “Welfare versus GDP: What Makes People Better Off.” *IMF Blog*, March 7, 2018: <https://is.gd/u01Y3z>

monopoly, yet it did not manage to challenge this monopoly. The HDI is also not taken into consideration in the making of public or economic policies. The dominance of the GDP is also demonstrated in evaluating the relative weight of its components. For example, a slight change in illiteracy rates in one country could have a remarkable impact on this country's GDP position⁴⁰.

When the financial crisis erupted, initiatives to introduce a change were launched. One of the first initiatives were by then French President Nicolas Sarkozy in the form of the Commission on the Measurement of Economic Performance and Social Progress, commonly known as the Stiglitz-Sen-Fitoussi Commission after the surnames of its leaders that included Indian economist and Nobel Laureate Amartya Sen, one of the experts that developed the Human Development Index. In fact, of its 16 economists, the commission included five Nobel Laureates. In a report released in September 2009, the commission proposed a number of methodological and practical modifications and philosophical compromises that would overcome the flaws of the GDP. The commission adopted a dashboard indicator instead of the GDP as a uni-dimensional indicator. This dashboard included at least seven indicators: health, education, environment, employment,

40- Jon Gertner. Op. Cit.

financial welfare, personal influence, and political engagement. The report asserted that an accurate measurement of economic activity has to start with equality and the distribution of income, consumption, and wealth.⁴¹ The establishment of the committee coincided with the European Union's 2007 Beyond GDP Initiative that aimed at "developing indicators that are as clear and appealing as GDP, but more inclusive of environmental and social aspects of progress".⁴² In 2010, the UK announced it would include a happiness indicator while Scotland formed an alliance of several countries to work on coordinating efforts and initiatives that attempt at formulating alternative indicators.⁴³

In the past few years, dozens of alternative indicators emerged as demonstrated in the table below:

41- Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi. *Mismeasuring Our Lives: Why GDP does not Add Up*. New York: The New Press, 2010.

42- "Beyond GDP: Measuring progress, true wealth, and well-being." *European Commission*: <https://is.gd/zbYJiH>

43- "How will we change the system?" *Wellbeing Economy Alliance*: <https://is.gd/STlaAL>

Table (1): Some alternative indicators to GDP⁴⁴

Indicator	Explanation	Coverage
Index of Sustainable Economic Welfare (ISEW) and Genuine Progress Indicator (GPI)	Personal consumption expenditures weighted by income distribution, with volunteer and household work added and environmental and social costs subtracted	<ul style="list-style-type: none"> - 17 countries, several USA states - Initiated 1950
Genuine Savings	Level of saving after depreciation of produced capital, investments in human capital, depletion of minerals, energy, and forests, and damages from local and global air pollutants are counted for	<ul style="list-style-type: none"> - 140 countries - 1970- 2008
Inclusive Wealth Index	Asset wealth including built, human, and natural resources	<ul style="list-style-type: none"> - 20 countries - 1990- 2008

44- Ida Kubiszewski. "Beyond GDP: Are there better ways to measure well-being?" *The Conversation*, Dec. 1, 2014: <https://is.gd/GCVpTY>

Indicator	Explanation	Coverage
Australian Unity Well-Being Index	Annual survey of various aspects of well-being and quality of life	<ul style="list-style-type: none"> - Australia - 2001-present
Gross National Happiness	Detailed in person survey around nine domains: psychological wellbeing, standard of living, governance, health, education, community vitality, cultural diversity, time use, and ecological diversity	<ul style="list-style-type: none"> - Bhutan - 2010
Happy Planet Index	A calculation based on subjective well-being multiplied by life expectancy divided by ecological footprint	<ul style="list-style-type: none"> - 153 countries - 3 years
OECD Better Life Index	Includes housing, income, jobs, community, education, environment, civic engagement, health, life satisfaction, safety, and work-life balance	<ul style="list-style-type: none"> - 36 OECD countries - 1 year

It is obvious that the above-mentioned indicators are divided into two main categories. The first is totally different from the GDP as far as calculation is concerned and the second works on introducing modifications to the GDP. For example, the Gross National Happiness belongs to the first category while the second category includes Genuine Progress Indicator and Genuine Savings. Other indicators belong to the second category such as the Green Gross Domestic Product, which links economic growth to the environmental consequences it brings about and which is subtracted from the GDP. Several countries adopted this indicator including Australia, Canada, China, Costa Rica, Indonesia, Japan, and Mexico. In 2006, the Chinese government announced that an estimated one fifth of its economic growth was lost as a result of environmental consequences, hence has to be subtracted from both the GDP and economic growth rates.⁴⁵

It also becomes obvious that alternative indicators broaden the concept of measurable economic value and economic activity so that it is not confined to the market value of goods and so that it encompasses welfare, education, safety, work-life balance, and civic engagement. All those factors have an impact on the economy and on people's living stan-

45- "Measuring Genuine Progress Towards Global Consensus on a Headline Indicator for the New Economy." *World Resources Institute and Center for Sustainable Economy*: <https://is.gd/sFNcbk>

dards and provide evidence of the failure of the Washington Consensus and neoliberal visions that have dominated the world in the past few decades ⁴⁶.

Third: Costa Rica and New Zealand:

This section examines two practical experiences of adopting alternative indicators to GDP: the first is the Genuine Progress Indicator in Costa Rica and the Better Life Index in New Zealand.

In the case of Costa Rica, a comprehensive policy that relies on adopting the Genuine Progress Indicator and giving up the GDP succeeded in making a small country rank first in the Happy Planet Index throughout the past few years. This transformation increased the life expectancy rate to 79.1 and raised welfare rates to come close to Scandinavian countries. Government policies based on the Genuine Progress Indicator managed to retrieve large swathes of forests subjected to desertification and not just stop their deterioration. The country adopts a generalized public services system in healthcare and education that managed to reduce poverty rates. All this was achieved with GDP per capita of only 10,000 USD ⁴⁷. Government policies might

46- Pablo Ava. "Measuring the progress of societies: Alternatives to GDP." *DOC Research Institute*, July 13, 2018: <https://is.gd/b2CnU6>

47- Jason Hickel. "Want to avert the apocalypse? Take lessons from Costa Rica." *The Guardian*, October 7, 2017: <https://is.gd/IxXQAY>

not have managed to remarkably increase the wealth and income gap, but they succeeded in demonstrating the ability of alternative indicators to guide public policies and to underline their potential to achieve more in the future.

In New Zealand, Prime Minister Jacinda Ardern announced in February 2018 that the government would measure economic success against social, cultural, and environmental performance.⁴⁸ All those factors were, therefore, included as main criteria in the 2019 budget. New Zealand aims at reducing child poverty within 10 years through adopting the Better Life Index that prioritizes individuals' welfare, including healthcare, education, skills, personal communication, social interaction, and personal safety as well as housing, employment, and work-life balance. The index currently used by the New Zealand is different from GDP in the way it includes economic, human, social, and natural capital all together.⁴⁹

Conclusion: Applicability of alternative indicators in the Arab region:

Several factors point to the imminent replacement of the GDP as the sole indicator to measure economic activity.

48- Laura Walters. "NZ Government to lead world in measuring success with wellbeing measures": <https://is.gd/0nWDlf>

49- "Beyond GDP Measuring: New Zealand's wellbeing progress." Deloitte, State of the State: New Zealand 2018: <https://is.gd/Hx6Pvp>

With global economy going through a phase of long-term stagnation marked by slow, if any, growth and with growing consequences of climate change and social inequality, the need for alternative indicators that would guide public policies becomes a must. This of course is not expected to be easy owing to the political nature of GDP dominance since the mid-20th century. Regarding the Arab region, a region with one of the highest inequality rates and most affected by climate change, attempts at formulating alternative indicators or modifying the GDP are almost non-existent. Even on the academic level, there is little research on the topic with the exception of one study released by the Social Justice Platform in August 2018 and which attempted to explore the possibility of applying the Genuine Progress Indicator in Egypt. The study included preliminary calculations of the Genuine Progress Indicator and compared them to GDP. The result was a gap of more than 600 billion USD (7.735 trillion Egyptian pounds according to the Genuine Progress Indicator compared to 4.106 according to the GDP) ⁵⁰. However, owing to lack of data the study affirms that its calculations are only estimations, especially that two main factors are not included: the draining of social capital and the depletion of natural resources ⁵¹.

50- "From GDP to Genuine Progress Indicator: Breaking away from neoliberalism [Arabic]." *Social Justice Platform*, August 2018: <https://is.gd/tUpe02>

51- Ibid.

Problems arising from lack of data, including on national accounts that are never published complete or published years later, are closely linked to the issue of who formulates alternative indicators, how they can be presented in a scientific manner, and what the situation would be if governments are not willing to effect a change. That is why it is better to start with Green Gross Domestic Product or the Better Life Index. The first is directly based on GDP calculations like the Genuine Progress Indicator yet less complicated while the second is directly adopted by the Organization for Economic Co-operation and Development (OECD) which would contribute to providing international expertise in case the government decides to go for a different approach. However, the Genuine Progress Indicator remains more comprehensive and more clear-cut in its opposition of the neoliberal system that gives rise to inequality and fails to achieve growth even according to its own criteria. The Genuine Progress Indicator is closer to a clear understanding of the reality of economic activities and more capable of guiding public economic and social policies, ones that are more just and more efficient.