

Measuring National Progress

Joseph Stiglitz put it well: "What you measure affects what you do...if you don't measure the right thing you don't do the right thing."

So how should we judge the progress of a nation?

The much-quoted Gross Domestic Product (GDP) is a tally of goods and services bought and sold with no distinction between transactions that add to well-being and those that diminish it.. A car accident that creates business for hospitals, insurers, lawyers and auto repair shops increases the GDP. So does economic activity that damages the environment. But household and volunteer work, which improve our well-being, aren't counted if no money is exchanged.

The man who created the GDP, New Deal economist Simon Kuznets warned us not to use it as the sole measure of a nation's health. As he told Congress, "Distinctions must be kept in mind between quantity and quality of growth, between cost and returns and between the short and the long run. Goals for more growth should specify more growth of what for what." We would also add "for whom." The GDP includes no measure of income distribution. For example from 1973 to 1993 the GDP of the United State rose by over 50 percent while wages declined by almost 14.

The GDP was better than no measure at all. During World War II, it allowed policymakers to track production for the war and it now gives us useful information on consumer purchases, which are linked to new jobs. But the GDP should not be our sole measure of progress.

The current economic crisis has spurred renewed interest in finding alternatives . Last year President Sarkozy of France created a Commission on the Measurement of Economic Performance and Social Progress . Noble laureates Joseph Stiglitz and Amartya Sen, who serve on the commission, have both urged that new assessment tools incorporate a broader concern for human welfare than just economic growth.

Several new ways to measure national progress have been proposed:

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The Genuine Progress Indicator adjusts the GDP for changes in income distribution, adds the value of household and volunteer work and subtracts for crime and pollution.

The Gross National Happiness measure includes subjective and objective indicators such as sustainable development, preservation of cultural values, conservation of the natural environment and good governance. This idea comes from King Wangchuck the former ruler of Bhutan.

The Happy Planet Index combines subjective life satisfaction, based on surveys, life expectancy and environmental impact as measured by the ecological footprint which is based on a complicated formula relating to CO2 emissions and the use of natural resources.

The trouble with these and other indexes is that they include data that requires interpretation.

The founding charter of the United Nations calls for the promotion of social progress and a better standard of life. The UN publishes a yearly Human Development Report, which tabulates each member country's GDP (Gross Domestic Product)—the dollar value of all the goods and services produced by a nation that year—as well as measures of life expectancy, education, health, nutrition, sanitation, the availability of clean water, gender discrimination and the distribution of income. The aim of the HDR is to track how development affects daily life. To measure progress, the United Nations frequently refers to the Human Development Index (HDI) which combines GDP, life expectancy, and educational level. As an example, Oman, which has a very high GDP per capita, but relatively low educational levels, ranks 58th, lower in HDI than Uruguay, which has about 60 percent of its GDP and has rank 46.

It's time to measure what is most important—improvements in national well-being.

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