

Column 3 What is measured affects what is done¹⁶²

Gross domestic product (GDP) is known as a major indicator of economic activity, but several problems related to GDP have been pointed out for many years. For example, some people say that GDP cannot measure affluence in the true sense of the word, inequalities, or sustainability, while others note that this indicator has not kept up with the times as the economy is shifting from physical to intangible capital.¹⁶³ This column describes efforts to improve GDP and initiatives to create new indicators that complement or replace GDP.

Karabell (2017)¹⁶⁴ stated that discussions on the economy in all countries around the world are centering on an increase or decrease in and the level of GDP. GDP is regarded as an indicator reflecting a country's economic size and domestic economic conditions, and it not only plays the central role in policymakers' decision-making but also serves as a framework for decision-making related to companies' employment and investment.¹⁶⁵ GDP per capita is used as an indicator for international comparison of the quality of life (affluence). The economic growth rate, measured in terms of change in GDP compared with the previous term (e.g., the previous quarter), is viewed as a figure that measures economic progress and indicates the results of governments' economic and fiscal policies. Changes in a country's GDP are used by international organizations, such as the IMF and the World Bank, to guide policies and determine how and which projects are funded around the world.¹⁶⁶

While GDP significantly affects decision-making on political and economic fronts as a measure of a country's affluence, its history is relatively short. The precursor of GDP (gross national product [GNP]) was developed in the Great Depression era in the 1930s and evolved further after World War II.

In the Great Depression era, because of the absence of a reliable measure of economic activity, the United States was unable to assess by how much the economy had contracted due to the Great Depression, so the U.S. Congress assigned economist Simon Kuznets the task of developing reliable measures.¹⁶⁷ A figure devised by Kuznets was based on income created by a country's people in and outside the country (national income) and later came to be known as GNP.¹⁶⁸ From early on, Kuznets understood that a country's income estimated from national income was not a measure of economic or

¹⁶³ Coyle, D., (2014), *GDP: A Brief but Affectionate History*, (Takahashi, R., trans. (2015) *GDP <CHIISAKUTE OOKINA SUUJI> NO REKISHI*, Misuzu Shobo).

¹⁶⁴ Karabell, Z., (2017), *The Leading Indicators*, (Kitagawa, T., trans. (2017) *KEIZAI SHIHYOU NO USO*, Diamond Inc.).

¹⁶⁵ Bean, C., (2016), "Independent Review of UK Economic Statistics," <https://www.gov.uk/government/publications/independent-review-of-uk-economic-statistics-final-report>, (Nakamura, H. and T. Ioka, trans. (2021) The full text of the translation of the reference material attached to *TOUKEI RISAACHI NOOTO* No. 7 "EIKOKU NI OKERU TOUKEI KAIKAKU NI TSUITE—EIKOKU NO KEIZAI TOUKEI NI KANSURU DOKURITSU REBYUU NO SHOUKAI)" <https://www.stat.go.jp/training/2kenkyu/pdf/rn/rn007b00.pdf>.

¹⁶⁶ Costanza, R. et al., (2014), "A Short History of GDP: Moving Towards Better Measures of Human Well-being," *Solutions*, Volume 5, Issue 1. https://www.robertcostanza.com/wp-content/uploads/2017/02/2014_J_Costanza_GDPHistory_Solutions.pdf.

¹⁶⁷ Weeks, J., (2019), "GDP: Origin, Uses and Abuses," *Policy Research in Macroeconomics*. <https://www.primeeconomics.org/articles/gdp-origin-uses-and-abuses/>.

¹⁶⁸ Raworth, K., (2017), *Doughnut Economics*, (Kurowa, A., trans., (2021), *DOONATSU KEIZAI*, Kawade Bunko).

social wellbeing¹⁶⁹ and that if the indicator started to be used for originally unintended purposes, such as resolving social and political problems, the worship of mere estimated figures could cause a serious problem.¹⁷⁰ Therefore, in “National Income 1929-1932,” submitted to the U.S. Congress¹⁷¹ in 1934, he stated his ideas as follows.

Human beings’ precious capacity to express a complex situation in simple terms could become a risk when it is not controlled in accordance with strictly defined standards. The measure of national income is liable to be deceived by fantasy. When dealing with problems at the heart of conflicts between opposing social groups, arguments involving excessive simplification are effective in many cases, and as a result, the measure is abused.

His statements indicate the importance of accurately grasping what was the original purpose of developing economic indicators and what the indicators measure and do not measure and understanding that the indicators should not be used for unintended purposes.

In 1942, the first U.S. GNP statistics were published. The statistics were used to assess the economic feasibility of the World War II expenditure program without deteriorating the Americans’ living standards or triggering inflation.¹⁷²

In 1953, the United Nations developed a common standard for the framework of the system of national accounts (SNA),¹⁷³ which grasps and records the various components of a country’s economy in a systematic and organized manner. When countries started to compile economic statistics using the SNA, various problems related to GDP came to the surface with the changing times. For example, Coyle (2014) stated that GDP is not something objective like a natural phenomenon but something artificially created and is a theoretical figure obtained through a very complex method, and pointed out that when determining the conceptual line that divides productive and unproductive activities, it is impossible to exclude arbitrary judgment.¹⁷⁴ GDP does not cover items not traded in the market, such as domestic work and other unpaid labor, or the erosion of natural capital.¹⁷⁵ In 1968, Robert F. Kennedy stated in a speech at the University of Kansas as follows: “Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things ... it measures everything in short,

¹⁶⁹ Weeks, J., (2019), “GDP: Origin, Uses and Abuses,” Policy Research in Macroeconomics.
<https://www.primeeconomics.org/articles/gdp-origin-uses-and-abuses/>.

¹⁷⁰ Karabell, Z., (2017), *The Leading Indicators*, (Kitagawa, T., trans. (2017) *KEIZAI SHIHYOU NO USO*, Diamond Inc.).

¹⁷¹ Kuznets, S., (1934), “National Income, 1929-1932,” NBER. Kuznets’ statements were cited from Zachary Karabell’s *The Leading Indicators*, (Kitagawa, T., trans. (2017) *KEIZAI SHIHYOU NO USO*, Diamond Inc.).

¹⁷² Marcuss, M. and Kane, R., (2007), “U.S. National Income and Product Statistics: Born of the Great Depression and World War II,” Bureau of Economic Analysis: Survey of Current Business.
https://apps.bea.gov/scb/pdf/2007/02%20February/0207_history_article.pdf.

¹⁷³ Revised three times, in 1968, 1993 and 2008 after its development in 1953.

¹⁷⁴ Coyle, D., (2014), *GDP: A Brief but Affectionate History*, (Takahashi, R., trans. (2015) *GDP <CHIISAKUTE OOKINA SUUJI> NO REKISHI*, Misuzu Shobo).

¹⁷⁵ Capital (stocks) comprised of natural elements, such as forests, soil, water, the atmosphere, and biological resources (see the website of the Ministry of the Environment).

except that which makes life worthwhile.”¹⁷⁶ Meanwhile, Costanza (2009),¹⁷⁷ an ecological economist, expressed concerns that GDP measurement encourages the depletion of natural resources faster than the pace of the regeneration of those resources.

In the 1970s, the fourth king of Bhutan proposed the Gross National Happiness (GNH) concept based on the idea that happiness is a more important factor than goods or money and adopted it as a core national policy.¹⁷⁸ In the 1990s, new indicators were conceived and developed, including the Human Development Index (HDI: conceived in 1990) of the United Nations and the Genuine Progress Index (conceived in 1995) of Redefining Progress, a non-profit organization.

In 2008, upon the request of then French President Nicolas Sarkozy, the Commission on the Measurement of Economic Performance and Social Progress (Stiglitz Commission), led by Joseph E. Stiglitz, a Nobel laureate for economics and others, was established. The commission’s main aim was to identify the limits of GDP as an indicator of economic performance and social progress, and then President Sarkozy’s perspective on this matter was stated in the preface to the report¹⁷⁹ published by the commission in September 2009.

“I hold a firm belief: We will not change our behavior unless we change the ways we measure our economic performance. If we do not want our future and the future of our children and grandchildren to be riddled with financial, economic, social, and environmental disasters, which are ultimately human disasters, we must change the way we live, consume, and produce. We must change the criteria governing our social organizations and our public policies... That is how we began to create a gulf of incomprehension between the expert certain in his knowledge and the citizen whose experience of life is completely out of synch with the story told by the data. This gulf is dangerous because the citizens end up believing that they are being deceived. Nothing is more destructive of democracy... the problem stems from the fact that our world, our society, and our economy have changed, and the measures have not kept pace... We have wound up mistaking our representations of wealth for the wealth itself, and our representations of reality for the reality itself... This report does not replace one single statistical approach by another—and this is what makes it so rich and meaningful.”

The report presented the following overall messages (1): the time has come to adapt our system of measuring economic activity so as to better reflect the structural changes which have characterized the evolution of modern economies; and (2) the measuring system should shift emphasis from measuring economic production to measuring people’s wellbeing, and the time has become ripe for doing so. The report set forth 12 recommendations under three themes—classical GDP issues, the quality of life, and sustainability.

¹⁷⁶ Kennedy, R. (1968), “Remarks at the University of Kansas,” <https://www.jfklibrary.org/learn/about-jfk/the-kennedy-family/robert-f-kennedy/robert-f-kennedy-speeches/remarks-at-the-university-of-kansas-march-18-1968>.

¹⁷⁷ Costanza, R. et al., (2009), “Beyond GDP: The Need for New Measures of Progress,” Boston University. <https://www.bu.edu/pardee/files/documents/PP-004-GDP.pdf>.

¹⁷⁸ See the website of the Honorary Consulate-General of the Kingdom of Bhutan in Tokyo (<https://bhutan-hcg.org/about-bhutan/culture/gnh/#fn4>).

¹⁷⁹ Stiglitz, J. et al., (2010), *Measuring Our Lives: Why GDP doesn’t add up (Preface)*, (Fukushima, K. trans. (2012) *KURASHI NO SHITSU WO HAKARU—KEIZAI SEICHOURITSU WO KOERU KOUFUKUDO SHIHYOU NO TEIAN*, Kinzai Institute for Financial Affairs).

In response to the commission's recommendations, in 2011, the Organization for Economic Development and Cooperation (OECD) published the Better Life Index. In 2014, the Social Progressive Imperative, a non-profit organization led by Professor Michael E. Porter of Harvard University, published a report that ranked countries in terms of the Social Progress Index (SPI). This index distinguishes between economic and social progress, with social progress evaluated in three dimensions—basic human needs ((i) nutrition and basic medical care, (ii) water and sanitation, (iii) shelter, and (iv) personal safety), foundations of well-being ((i) access to basic knowledge, (ii) access to information and communications, (iii) health and wellness, and (iv) environmental quality), and opportunity ((i) personal rights, (ii) personal freedom and choice, (iii) inclusiveness, and (iv) access to advanced education)—and based on 54 indicators. One of the SPI's characteristics is that it does not use subjective data but is based on objective data. According to the ranking table in 2022,¹⁸⁰ three Nordic countries, Norway, Denmark, and Finland, occupied the top three positions. As for the G7 countries, Germany was ranked eighth and Japan was ranked ninth. There are also other initiatives underway to develop indicators that can evaluate the affluence and environmental features of countries at various levels.

“The Economics of Biodiversity: The Dasgupta Review,” which was compiled on commission from the U.K Treasury¹⁸¹ and published in February 2021, pointed out that “as our primary measure of economic success, it (GDP) therefore encourages us to pursue unsustainable economic growth and development” and argued as follows: “The solution starts with understanding and accepting a simple truth: our economies are embedded within Nature, not external to it.”

¹⁸⁰ See the website of Social Progress Imperative (<https://www.socialprogress.org/global-index-2022-results>).

¹⁸¹ Dasgupta, P. (2021), “The Economics of Biodiversity: The Dasgupta Review,” London: HM Treasury. https://assets.publishing.service.gov.uk/media/60182857d3bf7f70c2afe5bb/Dasgupta_Review_-_Headline_Messages.pdf.