

The measurement of the GDP and the well-being of the people



'The air pollution activity, cigarette advertisements, deforestation and the sacrificing of natural wonders for growth is included in the GDP as a value. While our children's health, the quality of our education or the joy that is caused by playing with their parents is not. Moreover, GDP is not increased by the beauty of our poetry and the power of marriages. To cut the whole thing short, GDP considers everything but the important things in life.'

Robert Kennedy, 1968.

The subjects of this essay are definition, limits and critique of GDP. At the same time it presents the reasons and goals of creating of Stiglitz Committee, sketches 12 suggestions developed by the Committee. Among the alternative indexes elaborated for measurement of GDP, this essay gives detailed analyses of Better Life Index (BLI) and Human Development Index (HDI). Regarding welfare and sustainable development realised at the same time, the essay analyses the practice of Bhutan Kingdom and initiative of Germany. It concludes that the suggestions of the Stiglitz Committee are very correct and well-established, but every document is worth as much as it realised in practice.

HYPOTHESIS

In the Transatlantic/Western world and the countries influenced by it a usury civilization^[3] and a phantom economy^[4] has come into existence that lacks an economic and financial basis. The international financial world and its controlling

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elite, the international financial oligarchy has tried to overcome all the barriers to make the resource pump work at the highest level possible. Thus it has made effort to make the states, the national cultures, religions and the different civil organizations and communities weaker. Basically, it needs two types of people: the executives, and on the other hand, the cheap workforce, the consumers or the so-called helots (outlawed slaves). So Western civilization has been based on individualism in the last 30 years which is expressed by the satisfaction of the instincts, the personal level consumption and the omnipotence of the individual advocacy.

This model of capitalism was based on the market fundamentalism which – without control – is known to be very harmful to the economy of the natural and human resources. Nowadays this neoliberal world system is about to be broken up.

As a result of the present activity of the global money-imperium social inequality has come into existence and it is reproduced, on the one hand among the differently developed countries, on the other hand, inside the countries. One of the consequences of this money-oriented system is that '20% of the people living in the developed industrial countries consume 86% of the world's resources, while the other inhabitants can only consume the remaining 14%'.^[5] Moreover, the number of people living in poverty and social exclusion is on the rise which generates the intensification of economic, ethnic and social conflicts. In connection with these things we should highlight the speech of Pope Francis delivered on 9 July 2015 in Santa Cruz at the World Meeting of Folk Movements where he presented his thoughts on the critical position of our Earth, its basic causes and the things to be done urgently. During his speech the Head of the Catholic Church emphasized that a basic systematic change is needed in the whole world. 'A positive change that focuses on the life and the service of human communities as opposed to the profit-oriented processes'.^[6]

Pope Francis stated that there are three main tasks to ease and solve global problems:

- We have to put economy at the disposal of people. To achieve this, he suggests that workers and farmers should set up cooperations and economic associations.
- We need to unify people on the way to peace and justice.
- The protection of our Mother Earth.^[7]

I consider these thoughts to be essential to be able to interpret the discussions in connection with GDP and social development and put them in wider economic correlations.

[5] Drábik (2002): op. cit. 18.

[6] Ferenc pápa teljes bolíviai beszéde most először magyarul. <http://greenpeace.blog.hu/2015/07/28/>.

[7] Op. cit.

THE DEFINITION, LIMITS AND CRITICISM OF THE GDP

The notion of gross domestic product (GDP-Gross Domestic Product) as an indicator came into existence during the global economic crisis in 1930. In economics GDP is the value of products and services produced in a certain area (a country) during a certain period which can be used in the economy.

We can conclude that $GDP = \text{the consumption of households} + \text{investment} + \text{the consumption of the public sector} + (\text{export} - \text{import})$.

This indicator, in spite of the fact that this is one of the the key notions of mainstream economics, is not perfect. It is suitable for the measurement of economic production, but it does not pay attention to several important factors.

In the domestic and international specialized literature the following statements are identified the as regards the limits and criticism of the GDP:

- The increase of the GDP is not equal with the increase of the well-being as to achieve it we need a suitable economic and social policy.
- It does not measure sustainability.
- The income generated by black economy is left out from the official accounts. The value of the GDP is then identified by estimations.
- It does not pay attention to household activities such as child-rearing or care of the elderly which are important from the economic point view as well.
- The evaluation of non-market activities and their inclusion in the GDP is complicated. (for example: police or home defense activities). It is not suitable to measure the inequality of people.
- It does not take notice of the negative effects of natural harm (environment pollution, the destruction of people's health).
- It does not take several factors into account that influence the well-being of the society (health, economic safety, the quality of social relationships).

THE AIM AND RECOMMENDATIONS OF THE STIGLITZ - COMMITTEE

In February 2008 the President of the Republic in France, Nicholas Sarkozy asked 3 Nobel prize winning economists (Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi) to form a committee that was later called 'The Economic Production and Social Development Measurement Committee'. The Stiglitz-Committee not only included the above mentioned economists but sociologists as well, whose expertise went together very well. The committee set up three work teams which researched the following topics: classical questions in connection with the GDP, the quality of life and sustainability. The aim of the Committee is to measure the limits of the GDP and analyse the alternative measurement methods.

The key message of the Stiglitz report is the following: the time has come to put the emphasis from the measurement of the economic productivity on the measurement of people's well-being. The measurement of well-being needs to be examined in correlation with sustainability.^[8]

The committee has made up the following 12 suggestions:^[9]

- During the evaluation of financial well-being the income and consumption should be in the focal point instead of production.
- Emphasizing the point of view of the households.
- Income and consumption should be examined together with the assets.
- Greater emphasis should be placed on the division of income, consumption and the assets.
- The measurement of income should cover the non-market activities.
- People's quality of living depend on their objective circumstances and abilities. Steps should be taken to make the measurements of their health, personal activities and environmental circumstances better. We need to make effort to develop and carry out reliable measurement methods which aim at social relationships, political representation and insecurity as they are proved to influence the satisfaction with life. The indicators describing the quality of living need to evaluate inequality at all fields.
- The measurements need to be planned to be able to recognize the relationships between the life quality fields of all the people and this information needs to be used to plan the different strategies related to the different life fields.
- The statistical offices should provide the information which is needed to be able to connect each dimension of life quality, so they can create different indexes.
- The objective and subjective measurement of well-being provides key information of people's quality of life. The statistical offices need to include questions in their polls which help define people's life evaluation, experiences in connection with happiness and their priorities as well.
- We need a well-defined indicator system to evaluate sustainability. The items of the system need a characteristic so that we can interpret them as the variables of the described 'principal'. The financial index of sustainability has its own place in the system, but according to the latest approaches it should basically concentrate on the economic viewpoints of sustainability.
- The environmental viewpoints of sustainability should be followed separately, therefore well-selected physical indicators are necessary. We especially need a clear indicator which refers to the proximity of the dangerous level of environmental pollution. (eg. it is related to climate change or the decrease of fish stock).

[8] Stiglitz, E. J. - Sen, A. - Fitoussi, J. (2010): *A bizottság jelentése a gazdasági teljesítmény és a társadalmi fejlődés méréséről*. Statisztikai Szemle, 3.

[9] Stiglitz - Sen - Fitoussi (2010): op. cit. 312-320.

The document emphasizes that we would need data collection which helps decision makers and politicians to find the right way forward. So after the workout of the recommendations of the Stiglitz Committee the European Community Committee published the statement entitled 'Hence and forth the GDP. The measurement of progress in our changing world' on 20 August 2009 for the Council and the European Parliament. In this document the Committee of the European Communities has defined the realisation of the following five arrangements:^[10]

- The completion of the GDP with environmental and social indicators.
- Real time information for decision making.
- More precise report on the social division of possessions and inequalities.
- The workout of the European sustainable developmental scoreboard.
- The expansion of national bills to environmental and social questions.

ALTERNATIVE INDICATORS TO MEASURE THE GDP

In international and domestic specialized literature according to the authors there are seven alternative indicators to measure well-being and sustainability. These are the following: the Human Development Index (HDI), the Gender Inequality Index (GII), the Multiple Poverty Index (MPI), the Environmental Performance Index (EPI), the Climate Change Protection Index (CCPI), the Ecological Footprint (EFP), and the Happy Planet Index (HPI).^[11] Researchers apply other indexes apart from the above mentioned ones. As GDP cannot be the one and only index of social well-being, I am going to introduce two alternative indexes which can be used to supplement the GDP.

Better Life Index

The BLI index shows the quality of life and well-being in a way that it considers several dimensions. This index could be one of the supplementary indexes of the GDP, although it was thought to be one of the alternatives of the GDP. It correlates with the extent of the GDP, but it is bigger, and it measures the most important things in life. It is not easy to interpret, but it summarises 26 indexes from 11 dimensions. These dimensions are the following:

- flat or house
- income
- job
- community
- education
- health

[10] *A GDP-n innen és túl. A haladás mérése változó világunkban* (2010). Statisztikai Szemle, 3. 4-11.

[11] Szigeti Cecília (2012): *Alternatív mutatók, jólét és fenntarthatóság Magyarországon*. Polgári Szemle, 3-6.

- safety
- satisfaction
- environment
- social participation (the participation in elections, the extent of social consultation built in legislation and the transparency of processes)
- work-life balance (it is measured by the method of timescale, where the number of people doing overtime and having freetime is measured)

Apart from the above mentioned things there is the employment rate, the extent of salaries, the level of education, the results of the PISA test measuring different skills, the number of suicides, the air pollution, and the water quality. The OECD considers all the dimensions equally important in its research.^[12]

Human Development Index

This index was worked out by Mahbub ul Haq a Pakistani economist in 1990 and the UN has been using it for two decades to compare the countries of the world. The advantage of the HDI is that it can separate the differently developed countries. On the other hand, it can measure the effect of the economic policy on the quality of life.

There are three important parts of the HDI index:

- It approaches the long healthy life with the use of the average life expectancy.
- The next component is the knowledge acquired in the education which is measured by the use of two variables. The first variable is the writing-reading skill of people above 15 which makes up two-thirds of the whole sum, the second one is the combined educational rate, the total index of the primary-secondary and tertiary education which makes up one-third of the whole.
- The third component is the standard of living which is counted by the GDP based on purchasing power parity, expressed in per capita terms.^[13]

In addition, we can use the data provided by the Eurostat and the KSH, the indicators of sustainable development, the results of the empiric research done by the method of timescale, and the publications dealing with income inequality and the demographic situation. We can state that the initiatives made to introduce alternative indexes are most useful because of the change of their viewpoint. Of course, we cannot neglect the GDP, but we have to use it together with other indexes.

[12] Mérjük a jobb életet! Elérhető: lelkesen.wordpress.com 2012.

[13] Wikipedia.org. 2015.

POSITIVE PRACTICES AND INITIATIVES

Several countries have made an effort to realize well-being and sustainable development at the same time, but with more or less success. From these countries, I am going to present the practices used by the Bhutan Kingdom and the initiatives of Germany.

Bhutan Kingdom

Bhutan is a distant country situated between the ranges of the Himalayas with a population of about 1,5 million. Looking at the average of the world the inhabitants of this country are one of the poorest. In spite of this fact, they are not aware of starvation, there is no unemployment, no beggars and no crime at all. 95% of the Bhutanese are farmers and live by agriculture. Bhutanese people try to keep away from wealth as they know that money could destroy their cultural traditions. Money is used in this country as well, but most of the business is done by exchange and barter.^[14]

While in the Western part of the world economic growth, the GDP and profit is considered to be essential, King Dzsigme Keszar Namgjel Vangcsuk made his country accept in the constitution that 60% of the country must be covered by forests and it is forbidden to hunt for animals. Being the first in the world, the Bhutan Kingdom introduced the Gross National Happiness Index in 1972. The Buddhist spirited GNH means the real welfare if the material and spiritual development go together or complete each other. Starting from all these things we can state that GNH is based on four facts: sustainable development, preserving cultural values and natural resources and the appropriate governance. It means that it does not want to measure human welfare directly, but it wants to grab the factors leading to it with quantitative instruments.^[15]

Germany

According to a study published in 2013 a new method will be introduced in Germany, too, which can examine the welfare conditions of the population more thoroughly than the GDP. The method was elaborated in two years by a parliamentary committee containing politicians and expert measuring the well-being of the German population based on three dimensions and ten indicators. According to the opinion of this committee the GDP does not provide us with a detailed picture of the situation of the inhabitants, thus we need to include financial, social and ecological viewpoints in the examination.

[14] Palmer, J. (1998): *Világjárók lexikona*. Reader's Digest Kiadó Kft., Budapest. 93.

[15] GDP kontra Bruttó Nemzeti Boldogság <http://index.hu/gazdasag/vilag/2009/10/29/gdp-fixacis helyett boldog bolygó>.

The first dimension is called financial welfare where we need to examine not only the GDP but the national debt as well as it shows the clearing of the state. Furthermore, the distribution of the income is analysed. As a result, the changes of the social stratification based on financial situation become obvious.

Four indicators belong to the category called 'society and participation'. The first one is the employment rate which gives us the opportunity to compare countries at an international level with its single calculations. The second one is the average life expectancy which shows the health situation. The third one is the rate of people with higher education qualifications representing the educational level of the society. The fourth one is the so-called 'freedom of speech' and accountability indicator that examines the situation of the state based on the transparency level of the state operation and political freedom. In the third, so-called ecological dimension the welfare of the population is characterised by three indicators. One of the indicators is the number of useful bird species living in the country, the second one being the carbon-dioxide and the third one the nitrogen-emission. The indicator shows the condition of the natural environment based on the above mentioned things.^[16]

They expected the procedure to represent the changing situation of the population and starting from 2014 have carried out the research annually. To sum up, we can state that the recommendations of the Stiglitz-Committee are professionally correct and valid and they can intend positive changes for the future. At the same time, based on historical experience, we are aware of the fact that every document is worthwhile in practice. However, it seems to be unsure that the international money imperium will make it possible to realise these helpful recommendations in practice. Thus the words of Pope Francis about the protection of our Mother Earth, the fight against social exclusion and poverty and the cooperation from down under are most relevant nowadays.

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[16] *A GDP helyett új mérőszámot találtak ki Németországban.* http://hvg.hu/gazdasag/2013_0128.

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HUNGARIAN SUMMARY

A nemzetközi és a magyar szakirodalomban vita folyik arról, hogy mit mér, illetve mit nem mér a GDP. Több kutató arra a következtetésre jutott, hogy a GDP mindent figyelembe vesz, csak azt nem, ami az emberek számára fontos. Mindezekből kiindulva a tanulmány vizsgálja a GDP fogalmát, korlátait és kritikáit, egyúttal bemutatja a Stiglitz-bizottság létrehozásának okait, céljait és a bizottság által kidolgozott tizenkét ajánlást. A GDP mérésére kidolgozott alternatív mutatók közül részletesen elemzi a Better Life Indexet (BLI) és a Humán Development Indexet (HDI). A jólét és a fenntartható fejlődés egy időben történő megvalósításával kapcsolatban vizsgálja a Bhutáni Királyság gyakorlatát és Németország kezdeményezését. A tanulmány konklúziója az, hogy a Stiglitz-bizottság ajánlásai szakmailag nagyon korrektek és megalapozottak, de minden dokumentum annyit ér, amennyit abból a gyakorlatban megvalósítanak.