

# Replace GDP as a count

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**GDP as a measure of human well-being and progress is flawed. A new set of metrics that can be implemented across the world is the need of the hour**

The entire focus and preoccupation on Gross Domestic Product (GDP) as a measure of human progress and advancement has obviously been taken much too far. It was in 1930 that Lord Keynes came up with the statement, “For at least another 100 years, we must pretend to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.”

It must be remembered that this was a period when the global economy was in the doldrums and, perhaps, a measure which recorded the output of goods and services would have been useful as a response to the distress that the US in particular and other parts of the world were suffering from. But perhaps Keynes never anticipated that a system, which became ingrained in the minds of every individual and which defined the systems for measuring human progress, would hardly be easy to replace after a 100 years. We know today that reliance on GDP hides a lot of negative effects and externalities and its flawed effects keep growing.

The extent of waste and the impacts on the environment, which the modern economy generates, are, unfortunately, not factored into GDP at all. Damage to the environment and the stock of natural resources should, even on the basis of common sense, be deducted from any compilation of GDP for a particular society or economic system. Further, it is a well-accepted principle that when environmental damage takes place, the polluter must pay. This, unfortunately, is not the case all across the world.

The problem of climate change is the result of Cumulative Emissions of Greenhouse Gases (GHGs) since the beginning of industrialisation. The sole responsibility for this lies essentially with the industrialised countries and it is for this reason that the United Nations Framework Convention on Climate Change (UNFCCC) clearly came up with the condition of “Common but differentiated responsibility.” This was accepted and agreed on essentially because the developing countries are no doubt at a stage where their energy consumption would perhaps outstrip that of the developed world. Yet, the stock of carbon dioxide and other GHGs has been the cumulative contribution of the industrialised countries to an overwhelming extent. The developed nations are now conveniently forgetting the historical responsibility that they must accept fully.

The International Monetary Fund (IMF) came out with a study earlier this year where it estimated the extent of subsidies that the world is responsible for in the pricing of fossil fuels. “Globally, subsidies remained large at \$4.7 trillion (6.3 per cent of the global GDP) in 2015 and are projected at \$5.2 trillion (6.5 per cent of GDP) in 2017.”

The study further states, “About three quarters of the global subsidies are due to domestic factors — energy pricing reform thus remains largely in countries’ own national interest — while coal and petroleum together account for 85 per cent of the global subsidies. Efficient fossil fuel pricing in 2015 would have lowered global carbon emissions by 28 per cent and fossil fuel air pollution deaths by 46 per cent and increased Government revenue by 3.8 per cent of GDP.”

In other words, the world, instead of reducing the emissions of carbon dioxide — the primary GHG which causes climate change — is generously rewarding the production and use of fossil fuels and, hence, of carbon dioxide. This represents a distortion, which clearly reflects the power of the fossil fuel lobby over decision-making in most countries.

It was in 2008 that the then President of France, Nicolas Sarkozy, set up a commission on the Measurement of Economic Performance and Social Progress under the chairmanship of Joseph Stiglitz, the Nobel Prize winning economist, the report from which was submitted in September 2009. While the Stiglitz Commission analysed the flaws and shortcomings of GDP as a measure, it also came up with some recommendations, which would help modify and refine this metric. It was brought out that statistical indicators are important for designing and assessing policies aimed at advancing the progress of society as well as for assessing and influencing the functioning of economic markets.

It is well-known that what gets measured, gets managed. Hence, when we get measures that are flawed, then decisions will also be flawed or biased and we may then deviate substantially from what constitutes human welfare.

The first recommendation of the Stiglitz Commission was based on coming up with a measure reflecting material living standards, which would be closely associated with net national income, real household income and consumption. Hence, there is a large range of variables that would provide a sharp deviation between GDP and the well-being of a household or society.

Another recommendation emphasises the fact that citizens’ material living standards are better followed through measures of household income and consumption. In fact, data for OECD countries show that real household income has grown quite differently from real GDP per capita and typically at a lower rate. Another recommendation relates to considering income and consumption jointly with wealth. It may be inferred that if we were to apply this principle, we should also include estimates of natural wealth.

With the recent burning of the Amazon forest in Brazil, any measure of GDP would be over-estimated if we were to ignore the massive destruction of nature's wealth that Brazil owns. Still another recommendation highlights greater prominence be given to the distribution of income, consumption and wealth.

On a practical basis, if we have to overhaul the measure of GDP and eliminate its flaws such an effort needs to be led by the Secretary General of the United Nations (UN). The effort should involve setting up a group of experts which would provide a roadmap within a period of three months on how to ensure that the world moves its systems to a new set of metrics by 2030. This effort should then be taken up by the UN General Assembly to ensure that a new system is designed for implementation across all the countries of the world during its first phase of design and detailing during 2020 to 2022. The following eight years would then be given to full implementation and to ensure that by 2030 we give GDP a burial after a hundred years of dominant existence.

*(The writer is former chairman, Intergovernmental Panel on Climate Change, 2002-15)*