OPPORTUNITY #42

WHAT IF WE COULD MEASURE THE TRUE VALUE OF OUR ECONOMIES?

GDP 2.0

A globally accepted measure of the full cost and true value of all economic activity, including social and environmental impacts

WHY IT MATTERS TODAY

Gross domestic product, or GDP, the value of goods and services produced and consumed, has long been accepted as the global standard for measuring economic growth.

Simon Kuznets, an economist with the US National Bureau of Economic Research, first coined the term in a report to the US Congress in 1937[419] and the world adopted it as a standard in 1944 at the Bretton Woods conference.[420] GDP measures the total quantity of goods and services produced in an economy over a given period of time, typically annually. While GDP is widely used to indicate how well an economy is doing generally, it is more realistically a measure of production and omits areas such as health and well-being.

Even before the Great Recession of 2008, a global movement had emerged to replace GDP[421] with a broader dashboard of indicators that could help steer countries to a healthier and more sustainable future.[422] As the world evolves into a future that is even more complex and varied, many believe that a new globally adopted measure for growth is needed to set future policies and priorities and to communicate failures that are hidden by the use of GDP.[423]

Several institutions and non-governmental organisations have put forward alternative measures to the GDP but none have been globally adopted, partly because metrics are loosely defined or difficult to measure, or for other unknown reasons.

SECTORS

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But now, even the World Bank[424] and the International Monetary Fund (IMF),[425] traditionally strong proponents of GDP, are paying attention to environment, equity and sustainability measures in economies.

Countries with the highest GDPs do not necessarily enjoy greater societal benefits. In 2020, the top five nations by GDP were the US, China, Japan, Germany and the UK.[426] Yet China (1) and the United States (2) are the worst emitters of CO_2, followed by Japan (5), Germany (7) and the United Kingdom (17).[427]

While the UN's Human Development Index (HDI), which seeks to measure well-being, is based on a per capita ranking as a proxy for how societies are faring, the same nations above were ranked even lower, with Germany (6) ranked higher than the rest followed by the UK (13), the US (17), Japan (19) and China (85).[428]

Alternatives to GDP include the Beyond GDP initiative of the European Commission,[429] the US state of Maryland's Genuine Progress Indicator (GPI),[430] the Better Life Initiative of the Organisation for Economic Cooperation and Development (OECD)[431] and the Inclusive Development Index from the World Economic Forum (WEF).[432]

THE OPPORTUNITY TOMORROW

Non-monetary forms of value creation – such as unpaid care work and biodiversity through wildlife protection – have been increasingly socially recognised over the past few decades, but GDP has not evolved to encompass it. Many approaches to adapting or replacing GDP have been proposed, but none have been widely adopted.

Novel ways of capturing and analysing data can lead to global agreement on ways to assign monetary values to environmental and social impact. With strong political will, conventions on how we measure growth and prosperity could change. The key indicator of a country's economic success could include changes to natural capital (for example, natural ecosystems), health and well-being. This would allow for adjusting for environmental and social externalities in the same way we adjust for inflation every year.

BENEFITS

Quantifiable evidence for the value of 'soft' capital can lead to new ways of establishing competitive advantage, improve decision-making and enable forward-looking government strategies and policy choices.

RISKS

Poorly defined measures may create the wrong incentives and ethical risks related to the wider application of monetary values assigned to life.