PART I Why a New Strategy Is Needed

1 Replacing the Most Influential Indicator in the World

FOUR TIMES A YEAR . . .

. . . a group of civil servants go into the "lock-up" procedure in a secure room at 4600 Silver Hill Road, Maryland, USA. In the afternoon they enter an office where their name and time of arrival are recorded. They are not allowed to leave until they are officially dismissed, no earlier than 18:00. Contact with people outside the room is heavily restricted. All computers have been disabled for outside communication. There is only one telephone, which is controlled by the lock-up manager, who logs all conversations. Worksheets, notes, rough drafts, unused copies, single-strike ribbons or laser cartridges are collected when the lock-up ends. "Shredder Bins" are provided for office trash. If someone leaves the room to verify necessary information, this has to be authorised by the Director and/or Deputy Director. In case of family emergency or personal illness, participants need official permission to leave. During the lock-up the civil servants review the information and the executive staff write a press release. When all analysis has been done, the document is approved by a group of top management officials. The report is transmitted to the adviser of the President of the United States, who may brief the President before the general public is notified.[1]

The above procedures may seem appropriate for an intelligence agency, but these civil servants are far from secret agents: they are statisticians. They work for the Bureau of Economic Analysis (BEA). The adviser to the President is the Chairman of the Council of Economic Advisers (CEA). This procedure is followed every quarter. The report includes a key indicator called Gross Domestic Product (GDP), which is a measure of the economic activity of the United States.

More importantly, it shows whether GDP is growing ("economic growth") or shrinking.

The following morning the report is made public. The contents are transmitted all over the United States and all over the world. The media report the results almost instantly, politicians comment, stock markets rise or fall, economic pundits interpret the results and investment decisions are (re)considered. If the economic growth is high, the media will qualify the developments as "healthy", "buoyant" or "strong". If the figure is stable, the economy is said to be "anaemic" or "sluggish". If GDP diminishes significantly, words such as "slowdown" and "recession" start to be used. If economic growth is below stock market expectations, share prices and bond markets are affected.

When GDP growth is disappointing, the ruling party gets anxious and the opposition starts to question the abilities of the government. Voters start to lose confidence. George Bush enjoyed good approval ratings in 1991 but was still defeated a year later. His opponent, Bill Clinton, capitalised on the poor economic figures and his campaign team famously used the phrase "It's the economy, stupid" to keep on-message. The way that incumbents and challengers deal with economic issues has been an important predictor of US elections since at least 1952.[2]

THE GDP MULTINATIONAL

At the same time as the BEA officials in Maryland are calculating quarterly GDP growth for the United States, statisticians in many countries in the world are doing exactly the same. The countries of the European Union and the Organisation for Economic Co-operation and Development (OECD) all release their quarterly GDP figures within a period of around 30–45 days after the end of the quarter. Although not all countries produce quarterly GDP data, there are annual GDP figures for 200 countries and regions in the United Nations statistical database.

GDP figures are collected and disseminated by all the major international institutions, such as the World Bank, International

BOX 1.1 Terminology: National Income, GNP, GDP and Other SNA Aggregates

In this book, the term GDP is used to refer to the headline indicator of the national accounts. In reality the name and definition of the key indicator have changed over the course of history. Before the 1950s the term most commonly used was "national income". The first two official versions of the System of National Accounts (1953 and 1968) used the indicator Gross National Product (GNP). Later on, in the SNA 1993, GDP was adopted and GNP was sidelined.

It would be correct to use each term for the periods in which they were employed. However, using so many different terms will be confusing and it is also impossible to pinpoint an exact year when terminology changed. The term GDP is used most, although I sometimes also use the generic term "national income" for the periods around the Second World War.

The SNA includes other macroeconomic aggregates such as Gross National Income (GNI). For Official Development Assistance (ODA), for example, country contributions are based on GNI. The same holds for the contributions which EU member states have to pay to the European Union. The technical differences between the various macroeconomic aggregates do not contribute to the narrative of this book and therefore are not explained further.

Monetary Fund, OECD and the European Commission. These institutions use the data to project economic developments of individual countries and the global economy. International agreements such as the contributions to Official Development Assistance (ODA) or the contribution to the United Nations are made on the basis of macroeconomic figures (see Box 1.1). Geopolitical bodies such as the G7 or G20 are organised on the basis of GDP ranking. GDP data is also used by economists for academic research, stock brokers for investment decisions, as well as a host of other users and applications.

There is a vast national and global infrastructure underlying the calculation, dissemination and use of GDP data. This includes the

methodological guidelines which govern the calculation of GDP. These are recorded in an international handbook called the *System of National Accounts* (SNA), which was last updated in 2008. It is a 722-page manual on how to record the economic transactions and resources of a society.[3] Adherence to the SNA is not legally binding on the global level but there is significant pressure to conform. In some regions, such as the European Union, there are legal requirements for member states to deliver the data according to the handbook.[4]

GDP is without question the superstar of indicators. The global logistical, legal and communications infrastructure is like no other statistic. National Statistical Institutes and international organisations have created an efficient machine that is churning out new numbers all the time. In the current media landscape, with twenty-four-hour news networks and business reporting, GDP figures are very welcome. Quarterly GDP figures are produced by all major economies so the headlines basically write themselves: "New growth figures for the US (or China, Germany, France or the UK) show economy is growing/stabilizing/in recession."

In addition there are growth projections of the major economies and world GDP by institutes such as the IMF and OECD, which guarantee even more news stories. Simply insert the country and growth percentage in the following sentence "GDP growth for [country] projected to be [percentage]"; then ask a couple of economist talking heads to comment and a quarter of an hour of television is filled.

It is easy to argue that GDP has a lot in common with a multinational company. It has a worldwide presence and vast logistical infrastructure. There is a structure in which international organisations such as the UN, IMF, World Bank and OECD cooperate with the statistical bodies of all countries in the world. The "product" is created using globally harmonised SNA methodology. Quality control procedures are in place, to ensure consistent delivery.

People all over the world recognise the GDP "brand", which has become the proxy indicator for the "success" of a country. This

indicates that GDP has obtained a meaning which transcends its objective "product specifications". GDP measures the size of the economy yet the perception is that it measures whether a society is doing well or not.

These positive associations are common for other global brands as well. Global sneaker companies want their shoes to be associated with qualities such as freedom or an independent way of life. These emotions are important for product sales, which is why advertising rarely stresses the objective characteristics of a product but rather tries to appeal to these deeper emotions.

Society is unaware of the product characteristics of GDP (what it actually measures) but has a basic feeling that "high GDP is good and low GDP is bad". This has real-world implications because if a government or political party advocates lower economic growth it is likely to be ridiculed in the media and suffer in the polls. It is only fringe political parties or small isolated countries (e.g., Bhutan[5]) that have challenged the GDP multinational.[6]

Multinationals have drawbacks, however. The larger they become the more difficult it becomes to innovate. The GDP multinational is no different. Altering the "product specifications" of GDP requires years of laborious negotiations between many parties. The SNA has only been revised four times in the last seventy years (1953, 1968, 1993, 2008), despite the fact that society and the economy have changed radically.

For the first two editions of the SNA the number of active countries/experts was small and was led only by the UN. In the last revision, the SNA 2008, all countries and all the international institutes were involved. New guidelines are therefore slow to adapt because all countries have to agree and implement changes, which are sometimes very costly. Given that many developing countries still have poor statistical infrastructures this is a major barrier to innovation. As a result, the SNA is slow to react to changes in the economy and scientific knowledge and has changed little in the past seventy years.

THE BEYOND-GDP COTTAGE INDUSTRY

GDP is a measure of economic activity but not, as is the general perception, a measure of societal success. This has been known for a long time. Simon Kuznets, one of the pioneers of national accounting, famously wrote in 1934 that "the welfare of a nation ... can scarcely be inferred from a measurement of national income".[7] Even the SNA, the worldwide handbook, explicitly warns: "GDP is often taken as a measure of welfare, but the SNA makes no claim that this is so and indeed there are several conventions in the SNA that argue against the welfare interpretation of the accounts."[8] Issues such as well-being, sustainability and inequality are not measured by GDP. As a result of these shortcomings many alternatives to GDP have been proposed. These are known under the collective term "Beyond-GDP" but defining the boundaries of this field are difficult.

Among economists, the best known are "green accounting" indicators. This approach includes indicators such as the Measure of Economic Well-being (MEW), Sustainable National Income (SNI), Index of Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI), Genuine/Adjusted Net Savings or Wealth Index. These are usually based on GDP (or other SNA aggregates) which are adjusted by subtracting welfare-reducing impacts such as environmental damage (measured in monetary terms) and adding a monetary value for welfare-enhancing dimensions such as leisure time. Economists use neoclassical welfare economics or the capital theory to create these green accounting aggregates.

There are other approaches too. The field of subjective well-being (SWB) includes approaches which provide data on the "life satisfaction" or "happiness" of a population. This is done by asking respondents to score their life situation on a scale of 1 to 10 or some other range. The confrontation of GDP and SWB is often used to argue that GDP is not a good reflection of well-being. It has been argued that beyond a certain threshold, additional growth in GDP does not lead to higher well-being. To put it in layman's terms: money doesn't buy you happiness (at least not beyond a certain point).

The Beyond-GDP debate is more diverse than just green accounting and SWB. In the grey literature and policy documents other approaches are also prevalent. For example, the ecological footprint is cited frequently, including in the *Living Planet Report* of the World Wildlife Fund. There are "composite indicators" such as the Human Development Index (HDI), which aggregates health, education and GDP into a single index. HDI is one of the most visible Beyond-GDP alternatives and is featured every year in the United Nations' Human Development Report.

A popular approach in the grey literature is the use of a "set of indicators". This is also known as a "dashboard" or a "suite" of indicators. Rather than providing a single index, these approaches assume that the multidimensional nature of societal change requires a multidimensional set of indicators. The philosophy is that rather than aggregating economy, health, education, environment, social cohesion, etc. into one figure, these phenomena should be measured separately. This also means that the indicators are measured in various units rather than in terms of a single unit such as money. Indicator sets have become popular amongst governments and statistical offices worldwide. The United Nations' Sustainable Development Goals (SDG), which are a global agreed set of targets for sustainable development, are probably the most famous example of an indicator set.[9]

Thus there is a diversity of approaches, but there is also variety within each approach. There are many types of green accounting, composite indicators, subjective well-being and indicator sets at the national, regional, city and company level. This amounts to hundreds of alternatives. The alternatives are proposed by a highly eclectic group of institutes, researchers, universities and NGOs using a wide range of theories and approaches. All try to measure societal progress but operate in relative isolation, without much coordination.

Some GDP alternatives are one-off efforts whereas others may appear annually. Some have survived for decades while others have been forgotten fairly quickly. Overall, the Beyond-GDP scene is

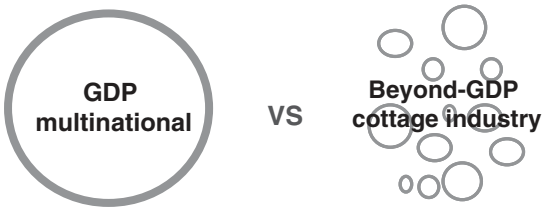

FIGURE 1.1 GDP multinational versus Beyond-GDP cottage industry

fragmented, with hundreds of different "products" coming from a multitude of small and medium-scale operations – a real cottage industry. This also means that it has all the positive aspects of small business: it is vibrant, full of energy, zeal and enthusiastic people, allowing for innovation to flourish. At the same time it lacks the global power of a multinational.

THE SCHUMPETERIAN DREAM

The previous sections introduced two protagonists to the story: the GDP multinational and the Beyond-GDP cottage industry as depicted in Figure 1.1. The left side of the figure represents the global enterprise with a well-coordinated and harmonised operation, while the right side shows the heterogeneous and chaotic Beyond-GDP situation.

This is a rather static view of the current state of affairs. What happened in the past which has resulted in this situation? And what might happen in the future? For this dynamic view it is useful to look at GDP as an innovation. In fact it was Nobel Prize winner Paul Samuelson who famously said: "While the GDP and the rest of the national income accounts may seem to be arcane concepts, they are truly among the great inventions of the twentieth century."[10] If this is so, how does it stack up to the various phases which are typical of innovation theory? Joseph Schumpeter, one of the pillars of thinking on innovation, defined the stages that innovations go through: early adoption, take-off, saturation and decline.[11]