

INTRODUCTORY REMARKS BY
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It is a pleasure to be able to participate in this meeting, culminating a year and a half's work on the part of the Commission on the Measurement of Economic Performance and Social Progress. I want first to thank the President of the French Republic, Nicholas Sarkozy, for convening the Commission, for the support he has given us, and for the complete freedom he has provided us in the conduct of our work. I also want to thank the other Commissioners for the enormous amount of effort that they put into the work of the Commission and for their sense of commitment and purpose, which allowed the resolution of even quite disparate positions. None of this would, however, have been possible without the work and the guidance of our Advisor, Amartya Sen, and Jean Paul Fitoussi, who served both as a Member of the Commission and as its coordinator. Though given the hard work of the members of the Commission, I hesitate to single out any for attention, but I feel I would be remiss if I did not acknowledge those who served as chairmen of the three working groups—Enrico Giovanni, Geoff Heal, and Alan Krueger, who served, respectively, as chairs of the working groups on problems with “standard” national income statistics, on the measurement of sustainability, and on metrics of well-being and quality of life. Finally, we need to acknowledge the work of the rapporteurs, headed by Jean-Etienne Chapron, who took to heart all the comments and suggestions made by the Commissioners and managed to produce a report that we should all be proud of.

The work of the Commission is written largely by and for social scientists (mostly economists, but the Commission includes a prominent political scientist, a prominent sociologist, and a prominent economic psychologist). In these introductory comments I do not want to repeat or review the major analytic contributions of the Commission. The three sessions that follow, focusing on the results of the three working groups, will do that. Rather, I want to provide more of the context in which the report is written.

President Sarkozy has already explained some of the reasons that led him to convene this Commission. A political leader attempting to fulfill the wishes of his citizens and promote their well-being is pulled in different directions: he will be graded on economic performance, even though much of that is out of his control, especially as a result of the creation of independent central banks. But citizens also care about many dimensions of the quality of life—including the quality of the environment. Current metrics suggest that there may be trade-offs—one can improve the environment only by sacrificing a growth measure. But if we had a comprehensive measure of well-being, perhaps we would see this as a false choice: it could indicate an

increase in well-being if we improve the environment, even if conventionally measured output went down.

Metrics that seem out of synch with individuals' perceptions are particularly problematic. If GDP is increasing, but most people feel they are worse off, they may worry that governments are manipulating the statistics, in the hope that by telling them that they are better off, they will feel better off.

In an increasingly performance oriented society, metrics matter. What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things. In the quest to increase GDP, we may end up with a society in which citizens are worse off.

We care, moreover, not just for how well-off we are today, but how well-off we will be in the future. If we are borrowing from the future, we at least want to know that our current level of well-being is not sustainable. While there are many dimensions of sustainability, environmental sustainability has taken on increasing importance, especially with the realization that, with global warming, the world is currently on an unsustainable path.

Flawed or biased statistics may also lead us to make incorrect inferences. In the years preceding the crisis, many in Europe, focusing on higher GDP growth rates, suggested that they should follow the American model. Had they focused on other metrics (such as median income) or if they had made appropriate corrections for the increased indebtedness of American households and the country as a whole—with the consequent risk of non-sustainability—their enthusiasm might have been more muted.

Inevitably, economists attempt to draw inferences about the desirability of policies by making comparisons over time or between countries, and if the metrics employed are imperfect, there is a risk of biased, distorted, and flawed inferences. We worry that if there are systematic measurement errors in, say, the output of the public sector, inferences made about the consequences of a large public sector on overall economic performance may be biased, simply because the larger the sector, the more the distortion.

Many of the problems with GDP statistics have been well known. But several factors have given the efforts of our Commission particular relevance. There have been changes in our society and in the structure of our economy that make some of the limitations of GDP accounting more relevant. I mentioned one already: if there is increasing inequality, as there are in many, if not most, countries around the world, there may be an increasing disparity between average income and median income (the income of the representative individual); one may be increasing while the other is declining.

The problems of measurement of government services which are not sold on the market are well known, but these problems become of increasing importance as the share of government expenditures in OECD countries (on average) increases, as it has from about 25% to more than 45% in the last 50 years. It is obviously more difficult to assess the quantitative importance of

quality improvements than to count the quantitative increases in, say, the number of cars; but such quality improvements are of increasing importance.

Globalization itself has meant that the difference between the well-being of the citizens within a country may differ markedly from the output produced within a country.

National income statistics like GDP and GNP were originally introduced to provide a measure of the level of market-based economic activity (including the public sector but excluding home production). But they have increasingly been thought of as measures of societal well-being. Of course, good national income statisticians have warned against these abuses, even as they have worked hard to make our measures better reflect the real level of economic activity. For instance, much economic activity occurs within the home—and this can contribute to individual well-being as much or more than market production. A shift in the locus of production may not necessarily be indicative of an improvement in well-being.

When problems of globalization and environmental and resource sustainability are combined, GDP metrics may be especially misleading. A developing country that sells a polluting mining concession with low royalties and inadequate environmental regulation may see GDP increase but well-being decrease.

There are concerns too that a focus on the material aspects of GDP may be especially inappropriate as the world faces the crisis of global warming. Should we “punish” a country—in terms of our measure of performance—if it decides to take some of the fruits of the increase in productivity from the advancement of knowledge in the form of leisure, rather than just consuming more and more goods?

The purposes of our statistical systems are multiple, and a metric that is designed for one purpose—measuring market activity—may be ill suited to another. GDP provides neither a measure of income of households nor a measure of well-being.

There is no single indicator that can capture something as complex as our society. But because what we choose to measure and how we construct our measures can have such an important role in the decisions that are made, it is important that there be an open and public discussion of our system of metrics. Hopefully, this Report will play a role in this public dialogue.

The Commission was fortunate in that there was a large body of work on the issues with which we were concerned on which we could draw. The early developers of GDP metrics were clearly far more aware of the assumptions that went into the construction of the index than many of those who have subsequently found the measure of such use. But by reminding researchers of the limitations and biases in existing measures, we hope that some of our analyses will not only lead to better metrics but will also unleash a flood of studies to help us understand the sensitivity of, for instance, the inferences to the metrics used.

There are several reasons that the timing of President Sarkozy's initiative was particularly opportune.

While changes in our economies and societies, including those to which I alluded earlier, have resulted in a sense that the old metrics may be increasingly deficient, especially as measures of well-being, advances in research across a number of disciplines enables us now to develop broader, more encompassing measures of well-being. Some of these dimensions are reflected in traditional statistics but are given more prominence: unemployment has an effect on well-being that goes well beyond the loss of income to which it gives rise. Health, education, security, and social-connectedness all are important to the quality of life—but not adequately reflected in GDP. For some of these, there may exist objective metrics, but for others, replicable subjective assessments may provide the best approach to measurement. Individuals may, for instance, be affected by their sense of security and by their bonds with others. But even the seemingly non-economic factors are affected by economic structures. Reforms in the workplace may lead to increased *market* efficiency but lower worker job satisfaction and therefore a reduction in their sense of well-being. Some economic reforms in recent years may have increased GDP but may have had adverse effects on important dimensions of the Quality of Life.

One of the criticisms of globalization (in the way it has proceeded) is that it has contributed to the weakening of a sense of community, thereby leading to a decrease in a sense of well-being. It is important to have metrics that would allow us to assess such claims.

This work is just at its beginning stage, and yet the results obtained so far are extremely promising. It has been clearly established that replicable measurement of many of those factors affecting well-being and the quality of life is possible.

The timing of the Commission was opportune for another reason. Criticisms of the traditional measures were being expressed in many quarters, including by civil society. Changes in the structure of our economy to which I alluded a few minutes ago raised questions about whether some of the assumptions made in the past were still appropriate. Global warming had put issues of sustainability front and center.

The concerns raised by President Sarkozy and our Commission have, not surprisingly, struck a global chord. There is resonance throughout the world. Even before the work of the Commission, Bhutan was hard at work creating a measure of GNH, Gross National Happiness, and Thailand was working on its own Index.

It is, I think, easy to understand why suddenly a set of issues that have been the province of technicians have become a source of public policy debate. Trying to understand what makes for good performance of a society is central to the social sciences. But the President of the Republic, in calling for the Commission, was not so much concerned about these technical matters as he was about how flawed inferences affect economic policy. And it is for the same reason that the work of the Commission has drawn such interest from Civil Society.

Indeed, there is hardly a decision in modern life that is not colored by our statistics and accounting frameworks. The focus of my own research over many years was on how information affects economic and political decisions. Our statistical systems and accounting systems provide an important part of the framework through which we see and analyze the world. They are critical parts of our “information” systems.

There is one more topic that I want to discuss briefly, and that is my response to the following question: the Commission was established before the recession hit; to what extent has the economic crisis shaped debate over the contents?

The answer is simple: the scientific work of the Commission, reflecting ongoing research on the underlying problems of the measurement of economic performance and social progress, was not affected by the crisis. But, especially for some members of the Commission, the crisis heightened the importance of the work of the Commission and its relevance and underscored certain problems with which the Commission had been grappling. Even before the crisis, Commission members had expressed a belief that a good set of metrics capture the notion of economic and environmental sustainability. It was clear that GDP by itself did not do this. Similarly, before the crisis, Commission members had expressed a concern about the appropriate use of market prices, especially for evaluating long-run sustainability. The crisis has illustrated the importance of these concerns. The seemingly strong performance of some countries prior to the crisis (as indicated by GDP) was not sustainable and was based on “bubble” prices which exaggerated profits and output.

We view our study as neither the beginning nor the end of a journey. Building on the work to which I referred earlier, we devote considerable efforts to thinking, for instance, about what kinds of reforms might lead to better indicators. But often the data required is not available. Thus, much of our Report is devoted to recommendations for future work, including by statistical agencies in gathering data.

I need to recognize, at this juncture, too the important work of the OECD, not only in helping to give prominence to the issues at hand and for their technical contributions to the subject but also for the support that they have given the work of the Commission, including through Enrico Giovanni, the OECD’s former chief statistician, who has spearheaded their efforts in this arena, and who, as I mentioned before, has served as chair of one of the three working groups of the Commission.

I want to conclude on a more personal note. I mentioned that many of the members of the Commission have been engaged with these issues for much of their professional lives. They have been advocating reforms in our statistical systems and doing the research on the basis of which such reforms could be made. I mentioned earlier my own work viewing accounting frameworks, at both the corporate and national levels, as an essential part of our information systems, and my concern about how we could improve these accounting frameworks, enhancing the quality of the information that forms the bases of decision making in our

economic and political systems. When I was a member, and then chairman, of President Clinton's Council of Economic Advisers, this was one of the issues I took on. Some of our proposed reforms were far less ambitious than those proposed here—simply a better accounting of resource depletion and environmental degradation. And yet, we met such political resistance that our initiatives were thwarted. To me, it showed the power of information. There were those who were afraid of the light which better information systems might shed.

These are among the reasons that I and other members of the Commission are so thankful to President Sarkozy for this initiative which is of such importance, and let me urge him too to see this as just the first step in what should be an ongoing effort. Even if we had succeeded in constructing the perfect measure for today, changes in our economy and our society would necessitate constantly revisiting these issues. But we are far from that goal.

The effort to improve our statistics too needs to be a global effort, one in which political leadership is necessary if we are to obtain the requisite momentum.

I hope that the work of this Commission has lived up to his expectations and that it will spark a global discussion on this matter which is of such vital importance to our democracies.

Too often, we confuse ends with means. One of the criticisms of our economies in the years prior to the crisis is that they did exactly that—a financial sector is a means to a more productive economy, not an end in itself. It is even worse to confuse an improvement in a measurement of well-being with an improvement in well-being itself. Our economy is supposed to increase our well-being. It too is not an end in itself. Hopefully, the work of our Commission will have increased the impetus to align better the metrics of well-being with what actually contributes to quality-of-life, and in doing so, will help all of us to direct our efforts to those things that really matter.