

GDP: What's the Problem?

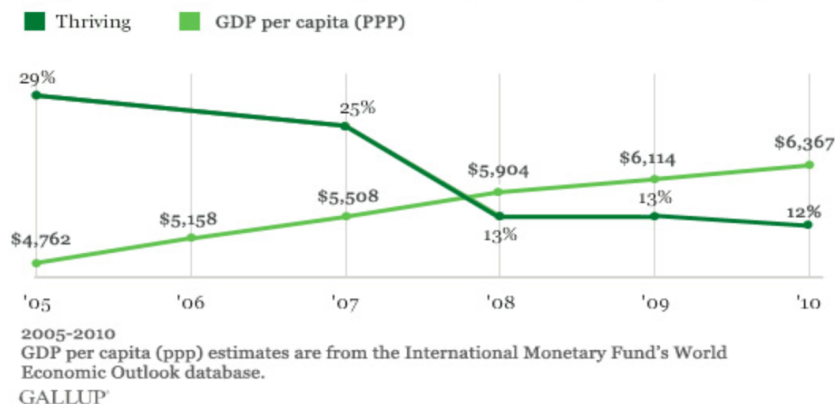
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The hardest part of policy-making is often simply deciding which problem to tackle. The even harder part, however, can sometimes be determining what to measure to use in order to understand and combat that particular problem.

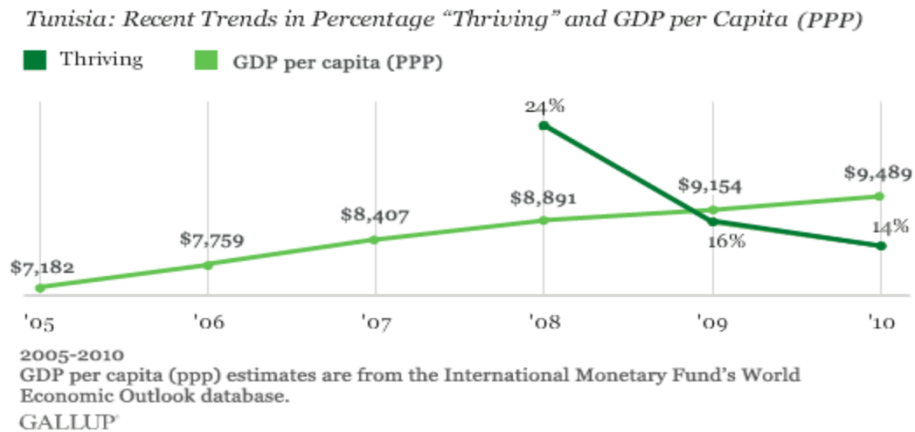
Take the issue of measuring a nation's economic wellbeing, for instance. Gross Domestic Product (GDP), a measure of economic production, has served as a proxy measure for nation-to-nation comparisons of economic wellbeing for roughly 80 years.ⁱ The policy goal here is to track, compare, and improve human life, and policy makers have used this measure as a benchmark for many decades. However, recent events have caused some to wonder whether this time-honored index is really the best gauge of the human condition. While the GDP provides us with extremely useful information, the time has come to use a different metric, one that will provide us with the whole picture of what really matters when it comes to quality of life: metrics to capture society, community, family, and personal wellbeing levels to gain a true, holistic picture of day-to-day life.

Modern history is providing supporting evidence to this claim. Today, the words *Arab Spring* still trigger images of violence, social unrest, and impoverished living standards – not what one would expect in a region enjoying a vigorous economy with steadily climbing GDP per Capita ratings from 2005-2011. While most observers viewed this robust GDP as a sign that life was good in the region, a handful of others were tracking the (Gallup) Wellbeing Index, which plummeted from a high of 29 percent and 24 percent in Egypt and Tunisia, respectively, to less than half that by 2010.ⁱⁱ In fact several key indicators were present and alarming – Gallup tracks the following indicators: law & order, food & shelter, institutions & infrastructure, good jobs, wellbeing, brain gain, and quality GDP growth.

Egypt: Recent Trends in Percentage "Thriving" and GDP per Capita (PPP)



Buoyed by a healthy GDP, it is not surprising that so few were paying close attention to the dropping wellbeing indices in these nations. In this case, trends in wellbeing indices proved to be a better indicator of the impending, sharp decline in the quality of life in Arab society.



The Problem

So, what is the problem here? When it comes to tracking quality of life, perhaps we have not been measuring what really matters.

Russian Immigrant and economist Simon Kuznets, who created the GDP as a statistical model of an economy in the 1930's, felt that his measure had serious limitations. Kuznets himself pointed out, while accepting the Nobel Prize in Economic Sciences in 1971, that GDP was a poor substitute for measuring the elements that compose real quality of life.ⁱⁱⁱ

“The conventional measures of national product and its components do not reflect many costs of adjustment in the economic and social structures to the channeling of major technological innovations; and, indeed, also omit some positive returns. The earlier theory that underlies these measures defined the productive factors in a relatively narrow way, and left the rise in productivity as an unexplained gap, a measure of our ignorance. This shortcoming of the theory...has led to a lively discussion in the field in recent years, and to attempts to expand the national accounting framework to encompass the so far hidden but clearly important costs, for example, in education as capital investment, the shift to urban life, or in the pollution and other negative results of mass production. These efforts will also uncover some so far unmeasured positive returns - in the way of greater health and longevity, greater mobility, more leisure, less income inequality, and the like.”

- Simon Kuznets, Nobel Prize Acceptance Lecture, December 11, 1971

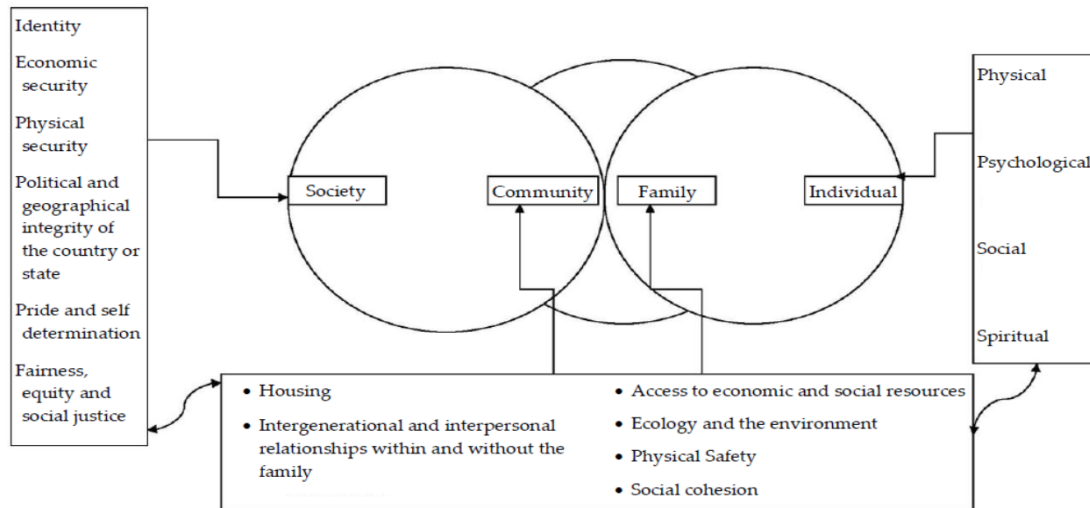
Despite the GDP's economic merits, even its creator understood the importance of using further metrics to capture society, community, family, and personal wellbeing levels to gain a true, holistic picture of day-to-day life.^{iv}

Thus, the GDP may not be the ultimate arbiter of how a country and its citizens are faring. Using metrics that capture broader definitions of wellbeing allows us to glimpse a richer picture of a country's economic, social, and political status.

It's Time for a Better Indicator

Why is measuring wellbeing so different from measuring GDP? There is a growing chorus of those that believe wellbeing indices paint a much more useful picture of what is really going on in society, community, family, and personal wellbeing situations in day-to-day life. Wellbeing measures, such as described in the figure below,^v highlight the complexity represented in the concept of human quality of life. This measure is holistic; the notion of wellbeing captures objective and subjective aspects, incorporating family, community, and societal factors, as well

Figure 1. A structured framework for defining wellbeing



as environmental, socio-economic, and political forces.

Source: V. LaPlace, A. McNaught, and A. Knight, "Discourse on Wellbeing in Research and Practice" (*International Journal of Wellbeing*, 3(1), p. 118, 2013).

Essentially, wellbeing measurement creates a more complete and accurate snapshot of the state of social conditions, providing a barometer for measuring just how much a person or society is able to enjoy life. Wellbeing assessments take a person's overall temperature: inquiring about perceptions of the future, physical and emotional health, quality of conditions at work and in the home – all in addition to economic performance. Expanding our focus beyond GDP to include wellbeing strengthens our understanding and ability to predict future conditions. These benefits extend far beyond providing red flags of coming political unrest, however. A robust wellbeing index could also prove useful to both the business and not-for-profit sectors by helping societies prioritize what needs to be done to make life better and, in turn, to develop effective offerings to achieve that improvement. The GDP assessment is principally focused upon economics. Think about asking friend how they are doing; would it be enough if they simply replied that they recently got a salary increase or took a cut in pay?

The Metrics

Metrics necessary to capture this concept of wellbeing are robust, and data collection processes are already underway. Two existing metrics, the [OECD Better Life Index](#) and the [Gallup-Healthways Wellbeing Index](#) both assess wellbeing in countries worldwide and are

providing new insights by reflecting this more holistic picture of day-to-day life. The OECD Better Life Index aggregates average indicators of different life dimensions based on users' preferences, while the Gallup-Healthways measure is based on individual level data referring to a more narrow range of dimensions. These two measures take two very good snapshots of what common sense tells us describes quality of life. They both measure things that are important to a person's perception of how they are doing; their physical and economic security, their sense of connectedness to their family and community, and their perceptions of fairness and social justice, to name a few. The most important quality of both of these measures, thankfully, is that they work - providing just the needed insight into wellbeing that economists have been searching for.

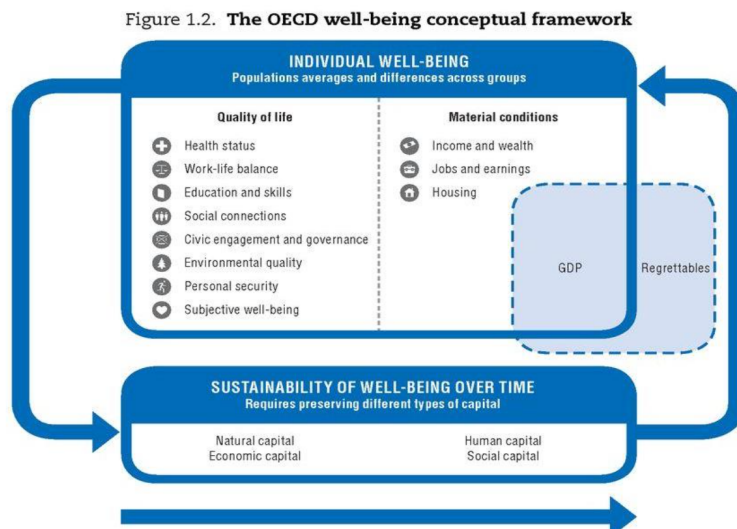
In fact, this growing arsenal of global research shows that people with higher wellbeing have higher employee engagement/productivity, incur lower health care costs, and are more resilient in the face of challenges such as unemployment. Also, higher wellbeing has been associated with outcomes indicative of stability and resilience, intent to migrate, trust in elections and local institutions, daily stress, food/shelter security, and volunteerism.^{vi}

Organisation for Economic Co-operation and Development (OECD) Better Life Index^{vii}

The OECD framework for measuring wellbeing is based on recommendations from the Commission on the Measurement of Economic Performance and Social Progress held in 2009. The three domains, material conditions, quality of life, and sustainability, include a number of relevant dimensions that, when aggregated, describe the conditions of the society as a whole.^{viii}

“For more than 10 years, focusing on people's wellbeing and societal progress, the OECD has been looking not only at the functioning of the economic system but also at the diverse experiences and living conditions of people and households. Measuring wellbeing and progress is a key priority that the OECD is pursuing as part of the Better Life Initiative through various streams of research and on-going work. The OECD is pursuing an ambitious agenda with the aim to develop better well-being metrics, and is also providing analysis in order to bridge the gap between existing well-being metrics and policy intervention.”

The OECD follows a conceptual framework for wellbeing that measures aggregate average indicators of different life dimensions based on users preferences outlined below:



Source: OECD (2011), *How's Life?: Measuring Well-being*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264121164-en>.

The Gallup-Healthways Wellbeing Index^{ix}

The Gallup-Healthways Wellbeing Index (GH) tracks six interrelated areas of wellbeing; Life Evaluation, Emotional Health, Physical Health, Healthy Behaviors, Work Environment, and Basic Access. The GH survey is based on individual level data referring to a more narrow range of dimensions than the OECD Better Life Index and is comprised of a series of experience and emotion questions within the context of the past 24 hours. The Gallup World Poll consists of a standard of core questions used around the world. Sampling techniques are employed to ensure that the survey data are representative of 95% of the world's adult population. ^x The Poll covers 8 core topics: local and national leadership, law and order, food and shelter, work, economics, health, wellbeing, and citizen engagement. The Global Well-Being Index today is comprised of data from 145 countries around the globe.

ALL ELEMENTS OF WELL-BEING 10 HIGHEST COUNTRIES AND AREAS

 PURPOSE	% Thriving	 SOCIAL	% Thriving	 FINANCIAL	% Thriving
Panama	60.5	Puerto Rico	63.0	Norway	68.9
Costa Rica	53.8	Panama	62.6	Sweden	67.9
Puerto Rico	48.8	Costa Rica	59.3	Switzerland	66.1
Chile	46.3	Uruguay	57.8	Netherlands	60.8
Guatemala	44.9	Chile	54.5	Austria	59.5
Denmark	42.7	El Salvador	49.4	Germany	57.4
Colombia	41.5	Guatemala	49.3	Luxembourg	57.3
Belize	41.2	Myanmar	48.4	Denmark	55.0
Mexico	40.5	Belize	48.2	Singapore	52.4
Uruguay	39.2	Argentina	48.2	Finland	50.7


 COMMUNITY	% Thriving	 PHYSICAL	% Thriving
Sri Lanka	50.1	Panama	52.2
Panama	50.0	Costa Rica	47.0
Belize	49.3	Belize	44.4
Denmark	48.8	Puerto Rico	40.9
Switzerland	48.7	Uruguay	40.7
Norway	47.8	Guatemala	40.7
Myanmar	47.7	El Salvador	39.6
Puerto Rico	47.7	Colombia	39.4
United Arab Emirates	46.8	Chile	39.2
Costa Rica	46.1	Myanmar	38.8

Source: Gallup-Healthways Global Well-Being Index. Based on surveys conducted in 145 countries and areas in 2014. Sample sizes are approximately 1,000 in each country. Differences of fewer than three percentage points between any two countries' respective scores are typically not statistically significant.

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ELEMENTS OF WELL-BEING, WORLDWIDE AND BY REGION

% Thriving

	IN THREE OR MORE ELEMENTS	 PURPOSE	 SOCIAL	 FINANCIAL	 COMMUNITY	 PHYSICAL
World	16.9	17.9	23.7	25.7	24.9	24.2
Americas	31.3	36.0	42.5	29.7	35.2	32.9
Europe	22.4	23.3	28.2	39.9	29.0	24.0
Former Soviet Union	18.6	21.6	28.0	27.8	23.9	18.4
Middle East and North Africa	15.0	12.4	22.5	25.0	24.8	22.7
Asia	13.4	13.5	19.0	24.6	22.4	23.2
Sub-Saharan Africa	10.2	13.9	17.0	9.5	20.4	20.7

Source: Gallup-Healthways Global Well-Being Index. Based on surveys conducted in 145 countries and areas in 2014. Sample sizes are approximately 1,000 in each country. Differences of fewer than three percentage points between any two countries' respective scores are typically not statistically significant.

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The Makings of a Movement: The World Wide Wellbeing Challenge

A cadre of individuals from different parts of the world and representing multiple business disciplines decided that it is time to move from measurement of wellbeing to action-oriented agendas. The genesis of a [World Wide Wellbeing](#) movement took shape, and much groundwork has taken place over the past two years. Like many others, we too began to question whether the time-honored use of the GDP was an appropriate metric for gaining a true, holistic picture of day-to-day life. We understand that what gets measured gets done. We advocate for comparing nations on the basis of wellbeing to allow us to measure and understand the direction a country is headed early on and to be able to make course corrections accordingly.

WWW embraced the excellent work of the OECD and Gallup-Healthways indices as well as other initiatives including (but not limited to) [The United Nations](#), [Johnson & Johnson](#), [The Institute for Healthcare Improvement](#), [The Samueli Institute](#), and The WHO Sponsored [Commission on Social Determinants of Health](#). We are ready to create a global wellbeing movement that offers programs to support progress and change wellbeing. We want to take existing practices and methodologies, leverage them at the country and regional levels, and deliver collective impact: the alignment of a common agenda, shared measurement systems, mutually reinforcing activities, continuous communications, and backbone support organizations.

Below are several planned WWW initiatives to help create and sustain a global movement:

- Creating an annual global awards event featuring regions/countries that compete to be recognized for their advancement of wellbeing
- Using the OECD and Gallup metrics, WWW will measure regions/countries readiness to advance wellbeing
- Conducting annual continental conferences that promote awareness of the benefits of striving for optimal wellbeing bringing private and public sectors together to collaborate (top down)
- Maintaining a website that serves as a communication platform used to communicate individual stories (bottom up), better wellbeing practices, and a library of case study better practices and a resource of subject matter experts
- Developing a short film that demonstrates the journey of advancing wellbeing and its benefits
- Maintaining a resource guide to organizations that provide services and products that enhance wellbeing
- Maintaining a reference guide on wellbeing related topics through articles, video and presentations

To do this, we are creating a network of like-minded organizations and initiatives that can induce leaders to adopt proven wellbeing practices. WWW is a support and feedback system that will ensure that the success of wellbeing efforts at the country and regional levels build confidence, trust, and willingness to act among other global leaders. Our aim is nothing less than a full-on global movement toward a future shaped by a better definition of what creating a better life really means. Please join us.

For more information or to get involved, contact Jon Comola at jrcomola@wrgh.org or Chris McSwain at cmcswain@aasonn.com.

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- ^v V. LaPlace, A. McNaught, and A. Knight, "Discourse on Wellbeing in Research and Practice" (*International Journal of Wellbeing*, 3(1), p. 118, 2013).
- ^{vi} "Panama Leads Well-Being for Second Year in Annual Gallup-Healthways Global Well-Being Index Rankings" (Businesswire, June 24, 2015), <http://phx.corporate-ir.net/phoenix.zhtml?c=91592&p=irol-newsArticle&ID=2062049>.
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