**September 15, 2009 – New York Times**

# G.D.P. Seen as Inadequate Measure of Economic Health

**By DAVID JOLLY**

PARIS — President Nicolas Sarkozy told the French national statistics agency Monday to take greater account of factors like quality of life and the environment when measuring the country's economic health.

Mr. Sarkozy made the request after accepting a report from a panel of top economists he had charged with reviewing the adequacy of the current standard of fiscal well-being: gross domestic product.

The panel, chaired by two Nobel economists, Joseph E. Stiglitz of Columbia University and Amartya Sen of Harvard University, concluded that G.D.P. was insufficient and that measures of sustainability and human well-being should be included.

An "excessive focus on G.D.P. metrics" also contributed to the onset of the current financial crisis, according to the report. Policy makers cheered rising economic growth while other data, like those that showed the increasing and unsustainable indebtedness of households and businesses, were overlooked, the report found.

"The main message is to get away from G.D.P. fetishism and to understand the limits to it," Mr. Stiglitz said in an interview. "There are many aspects of our society that are not covered by G.D.P."

Mr. Sarkozy, speaking Monday at the Sorbonne, where a daylong symposium on the report was under way just two weeks before the next Group of 20 summit meeting, said he would encourage other countries to examine its findings as well.

"France will put this on the agenda of all of the international meetings and all the discussions that have for an objective the creation of a new order," he said.

Mr. Sarkozy created the commission in February 2008, only the latest initiative to take on the issue. The Organization for Economic Cooperation and Development and the European Commission are also considering new economic measures.

G.D.P. is the measure of the market value of all the goods and services produced in the economy. Its development in the 1930s, when the U.S. government was looking for new tools to measure national income and output more accurately, has been described as one of the most important advances in macroeconomics.

However, there has long been criticism that, while it accurately captures the growth or contraction of the overall economy, it is a crude tool for describing social health.

The United States, for example, with the world's largest economy, naturally tops G.D.P. rankings, but it ranks lower by other measures. The United Nations Development Program's human development index, which incorporates G.D.P. as only one of a number of criteria, ranked Iceland, Norway and Canada the top three spots in 2008, with the United States a distant 15th. The human development indexes also seek to incorporate the value of a long and healthy life, access to knowledge and a decent standard of living.

As an alternative to the developed world's pursuit of G.D.P., the Himalayan kingdom of Bhutan has chosen to focus on "gross national happiness," complete with the 4 pillars, the 9 domains and the 72 indicators of happiness.

Mr. Stiglitz noted that recent U.S. Census data showed that over the years 2000-8, America's median household income fell about 4 percent. But over the same period, he said, G.D.P. — the number on which the media and government were focused — was rising.

“There isn’t a single indicator that can encompass everything,” said Enrico Giovannini, the chairman of the Italian national statistics agency, Istat. “It’s not a question of replacing G.D.P. It’s a question of complementing it with other indicators that can provide other measures of well-being.”

Mr. Giovannini, who until recently was the O.E.C.D.’s chief statistician, said the challenge would be for national authorities to go back and try to begin implementing the commission’s recommendations. He said the best hope was that countries would work out common standards under the auspices of the O.E.C.D., because “otherwise we’ll have a patchwork of indicators.”

Yet for all the enthusiasm of Mr. Sarkozy and the participants at the conference, Mr. Stiglitz, a former adviser to President Bill Clinton, said “putting together the new indicators is not going to happen overnight,” because of the need to gather and test the data.

The Stiglitz commission report, known formally as “The Measurement of Economic Performance and Social Progress Revisited,” said that one of the most glaring problems with using economic growth as a proxy for well-being was the fact that it excluded the damage to society and ultimately to the economy of environmentally non-sustainable activities.

For instance, “developing countries may be encouraged to allow a foreign mining company to develop a mine, even though the country receives low royalties, even though the environment may be degraded, and even though miners may be exposed to health hazards,” the report says, “because by doing so G.D.P. will be increased.”

They also identify another problem with the reliance on G.D.P. and other “standard” measures: the gap between what the numbers say and what people are actually experiencing. Over the course of recent decades, they note, G.D.P. was rising in most of the world, even as the median disposable income — the income of the “representative individual” — was falling in many countries, meaning that a large share of the gains from economic growth ended up in the hands of the wealthy at the expense of the rest.

The specific recommendations include ensuring that G.D.P. itself is measuring the same in every country, as statistical agencies calculate it differently from one country to the next, leading in some cases, to large variations in the way government services are valued. That has the potential to lead to policy mistakes, they warned.

“What we measure affects what we do; and if our measurements are flawed, decisions may be distorted,” they wrote. “Policies should be aimed at increasing societal welfare, not G.D.P.”

http://www.nytimes.com/2009/09/15/business/global/15gdp.html