

# **Beyond GDP: can we re-focus the debate?**

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Even before the start of the financial and economic crisis in 2007, a feeling emerged that something had gone wrong in the economy, despite relatively high growth rates and declining unemployment. At least in Europe, economic growth seemed decoupled from subjective well-being, while there were rising concerns about its ecological consequences.

The discussion gained prominence in 2008 with the ‘Commission on the Measurement of Economic Performance and Social Progress’ (Stiglitz *et al.*, 2009), better known as the Stiglitz-Sen-Fitoussi Commission (SSFC). Although a lot of similar initiatives had been started in the past 40 years, this Commission sparked off a new broad debate. It became widely known in the European political sphere under the headline of ‘Beyond GDP’ (European Commission, 2009).

In 2012, the Commission should have presented a report on the implementation of ‘indicators that do what people really want them to do, namely measure progress in delivering social, economic and environmental goals in a sustainable manner’ (ibidem: 11). These could have laid the foundation for the future economic and social policy

The deep economic crisis since 2008 should have made it obvious that the current economic strategy failed to deliver sustainable progress for everybody in Europe, and thus fuelled the initiative. Furthermore, the crisis also demonstrated painfully that a lack of growth and especially a shrinking GDP can have disastrous negative effects on subjective well-being, especially through rising unemployment and poverty, and the concomitant pessimism and misery. However, what happened was a fragmentation of the different initiatives: ‘Beyond GDP’ more or less ceased to be an issue, and even the related Europe 2020 strategy has seen major setbacks, as the policy was entirely focused on short-term crisis measures. This is a lost chance for more coherent economic governance in Europe.

The lack of growth since 2008 leads directly to a crucial point in the Beyond GDP debate (BGD). GDP is not a goal in itself, but it can be a means to achieve progress. The nature of this progress is difficult to define a priori as it is the result of a deeply political process. Philosophy has nonetheless attempted to give some answers – the well-known capabilities approach of Amartya Sen (2009) and Martha Nussbaum (2000), for instance, focuses on the ability to reach happiness rather than the actual achievement of desired ends. Robert and Edward Skidelsky (2012), economist and philosopher, in contrast develop a set of basic goods that are elements of a ‘good life’, reviving a debate that dates back at least to Aristotle.

Some strands of this debate seem relevant for the discussion here. First, economic activity can either be funnelled into a higher standard of living, or into increasing leisure. Both ‘lead us out of the tunnel of economic necessity into daylight’ as Keynes stated it ardently in 1930 (Keynes, 1963: 7). Secondly, we have to look at the distribution of these possibilities, which are determined mainly by income and wealth. Thirdly, as GNP ‘measures everything [...] except that which makes life worthwhile’, as Senator Robert F. Kennedy put it in 1968 (see Taylor, 2012), it is important to incorporate various other aspects which influence the quality of life and which are not directly measured by the level of economic activity. These include (non-exhaustively) health, social inclusion, individuality, a broadly defined security, leisure, harmony with nature and religious principles, and high-quality public services. The SSFC largely skirts around the philosophical pitfalls by asking which statistical information is missing for better, evidence-based policies. This contribution follows their pragmatic approach while acknowledging that the determination of the set and ranking of additional indicators is a fundamentally political question which cannot be decided by experts.

The first part of this contribution places the BGD in the context of current European economic policy and governance. We argue that these two hardly fit together and that the latter has to be changed if the former is to be taken seriously. The second part attempts to shed some light on the main dimensions of the triple crisis in economic performance, social progress and their potential (ecological) limits, and relates these crises to the attempts to find a better way of measuring progress. The third part outlines the historical background of the BGD,

which had its first peak in the 1970s. In particular, we ask why GDP became an ever more important indicator while the alternatives are hardly known today, and what can be learned for the current debate from discussions that took place over 40 years back. Finally we propose employment, distribution and socio-ecological transition as the three pillars of a project to increase welfare, which we find necessary to move beyond a focus on GDP.

## **1. The BGD in the context of European economic policy**

In August 2009, when the first positive quarterly growth rates after the deepest economic crisis in Europe in decades occurred, the European Commission set out a roadmap ‘to better measure progress in a changing world’ (European Commission, 2009: 4).

The first change was a reformulation of the initiative of 2007, which was the first sign of a significant change of direction. No longer was the goal to go ‘beyond GDP’, but to focus on ‘GDP and beyond’. The thesis set out in the communication was that GDP ‘is a powerful and widely accepted indicator for monitoring short to medium term fluctuations in economic activity, notably in the current recession’ which ‘is still the best single measure of how the market economy is performing’ (ibidem: 10). It stated implicitly that additional indicators are only needed in the long run to measure economic and social progress, as if this were a luxury after the main mission of growth has been accomplished.

However, the Commission got one of the main points right when it noted that ‘EU policies will be judged on whether they are successful in delivering these goals and improving the well-being of Europeans’ (ibidem). By 2012, five key actions should have been undertaken in this direction:

- Complementing GDP with highly aggregated environmental and social indicators;
- Near real-time information for decision-making;
- More accurate reporting on distribution and inequalities;
- Developing a European Sustainable Development Scoreboard;
- Extending National Accounts to environmental and social issues.

Up to now, there is hardly any sign that the Commission has put this agenda forward politically, although there was significant progress on the technical level via Eurostat, the European Statistical System (see part 2 of this article). The only Commission activity outside Eurostat in 2012 on the joint website [www.beyond-gdp.eu](http://www.beyond-gdp.eu) is the website's 5<sup>th</sup> anniversary. The European Council does not fare much better. It only recalls the need to use 'indicators that complement GDP' as one of 35 conclusions in the context of Rio+20 (see [www.beyond-gdp.eu/news.html](http://www.beyond-gdp.eu/news.html)).

We suggest two main reasons for the observed shortcomings. One is the quite ambitious nature of the project. For example, there is a huge gap in the area of reliable distribution indicators at EU-level, which is not easy to fill within three years without noteworthy new resources. Especially in times of crisis with tighter government finances this is a difficult task. But first of all, the current lack of ambition is caused by ideology. At least as early as the Greek financial crisis, starting in 2010, Europe witnessed a rapid shift in crisis management from coordinated economic stimulus management and tackling the roots of the crisis to an exit strategy based on macroeconomic surveillance (see Degryse and Pochet, 2012) of national economic policies, with a focus on some kind of macroeconomic trinity consisting of austerity, structural reforms and competitiveness. This ideological tightening leaves no space for an equal treatment of social indicators. It is clear that slashing social spending, a reduction of social security to gain flexibility, and real wage cuts to improve cost competitiveness will lead to negative results in well-being indicators.

The Europe 2020 strategy faces similar problems. Its headline targets such as higher employment, better educational outcomes and less social exclusion – which can be read as a specific, less ambitious and too narrow version of 'indicators that measure progress in delivering social, economic and environmental goals' – also came into contradiction with austerity measures.

It is therefore not surprising that social actors challenging current European economic policy are also those trying to push the BGD (and to a smaller extent the Europe 2020 strategy) further. In 2012, parts of the trade union movement started a number of initiatives. The IG-Metal conference 'Changing Course For a Good Life' stressed that 'financial market-driven capitalism is a mistake and what is needed is changing

the course towards a good life, which includes preventing the exploitation of nature and the destruction of social systems' (IG Metall, 2012). The connection between social and ecological aims is also accentuated by the discussions on the nature of progress, started by the Upper-Austrian Chamber of Labour. They highlight that from an employees' perspective, environmental problems cannot be solved by the market, in the same way as questions of wage policy or income distribution cannot be solved by the market. In addition, the European Federation of Public Service Unions (EPSU) and the European Trade Union Institute (ETUI) organised a Beyond GDP conference in March 2012 and a conference 'From (un)economic growth to future well-being' in October 2012. These activities show that the trade union movement recognises that the BGD is of high and growing relevance, and that a socio-ecological transition with a concomitant set of alternative statistical indicators of well-being are necessary for real progress and an improvement in well-being without the exploitation of the environment.

However, despite this positive picture it should be borne in mind that the actions taken by the trade unions so far fall short of their rather ambitious discourse (see Galgóczi and Pochet, 2012). A shift from 'the social partnership model that developed in Europe after World War II [which] was based on the resource-intensive industry and consumption paradigm' to a strategy of a 'just transition' (ibidem: 252f.) is an ongoing process, which in practice is not yet free of contradictions.

Meanwhile, the emerging new European economic governance stressed the need for a statistical work programme focused on the development and enforcement of a new Macroeconomic Scoreboard and more detailed statistics on public finances. This was the new political priority where 'more comprehensive information to support policy decisions' (Eurostat, 2011: 11) should be provided, and not aims such as social progress or environmental issues.

A direct link between the indicators programme and the new macro-economic surveillance approach can be found in the bilateral work of the economic advisory councils in Germany and France (Conseil d'Analyse Économique and Sachverständigenrat, 2010). Their follow-up report to the SSFC, published at the end of 2010, contained a set of various indicators with an overwhelming focus on economic sustainability in the third pillar. Some of them have a clear connection to European

guidelines, such as the rate of R&D-expenditure to GDP, the cyclically adjusted public deficit or the credit-to-GPD-ratio (ibidem: 27).

This shift is quite ambiguous. On the one hand, it became clear that macroeconomic stabilisation cannot be entrusted to market forces, and thus has to be a topic for economic policy intervention – and therefore supported by some indicators. On the other hand, it could open a backdoor for a new merely GDP growth-focused economic strategy that covers up environmental conflicts by watering down the sustainability concept.

Such a concept of an indicator-based economic policy, focused on macroeconomic stability and using central surveillance mechanisms, was further developed in the ‘Six-pack’ and the ‘Euro Plus Pact’. The new so-called Macroeconomic Imbalance Procedure, in particular, with the set of indicators, the ‘scoreboard’ (see European Commission, 2012a) might be interpreted as some kind of ‘GDP and beyond’, as it implicitly sets out additional indicators to measure good/stability-oriented economic policies.

However, this development has the potential to narrow the broader guidelines for economic policy stated in the Treaty on the Functioning of the European Union (TFEU), where the ‘well-being of its peoples’ is the basic aim, followed by some kind of a ‘magic polygon’ of economic policy (Rothschild, 2005) with the ‘corners’ being balanced growth, price stability, full employment, social progress, quality of the environment and scientific and technological advance. The Europe 2020 strategy also has a broader focus than the macroeconomic scoreboard.

The BGD can only become a success if the new indicators are directly linked to the economic agenda through broad long-term goals. Dullien and van Treeck (2012) propose – in the context of Germany – a reformulation of the magic polygon through legislation, highlighting ‘social sustainability’, ‘material prosperity and economic sustainability’, ‘ecological sustainability’ and ‘sustainability of public activity and finances’, all of which should be treated equally and further specified by a set of indicators. This should be the basis on which economic policy is evaluated. For that purpose, they propose an ‘annual prosperity report’, which should clearly point to development in these fields, lay out the basic trade-offs between the goals and suggest what should be done to establish a balanced policy-mix. In the European context, such a report

could replace the annual growth report and become a basic tool to broaden the economic debate in the European Semester.

An important precondition for such a report would be timely data, comparable time series and at least rough projections for the near future. For example, the European Quality of Life Survey (Eurofound, 2012) aims at measuring the overall objective of the TFEU and contains a lot of pertinent information. It also shows that a publication interval of four years is a major barrier for policy relevance. At the same time, quarterly reports would probably not add a lot of information, since the broad determinants of well-being and happiness are known (see for example Layard, 2005) and rather stable. On the other hand, some of the available indicators, for example in the case of unemployment, are published in a more timely manner and with higher accuracy than GDP. The importance of data quality should thus not be overestimated.

## **2. The main dimensions of reformed statistical indicators**

As mentioned, Europe witnessed some positive developments regarding statistical indicators. In the last years a consensus emerged on better measurements of progress, at least on a relatively general level. The SSFC laid the basis with its twelve reform recommendations. This ground-breaking work was referred to in the more detailed work of the ‘Sponsorship Group on Measuring Progress, Well-being and Sustainable Development’ launched by the European Statistical System Committee, the joint report of the French and German economic expert councils and the OECD’s ‘Better life’ initiative (see Eurostat, 2011). They identified three areas that should be at the centre of such indicators: economic performance, societal well-being and the sustainability of these, with a special focus on the environment. This section is structured along these lines, since these are also the areas in which Europe is facing a crisis.

This is certainly a new quality of treatment, as the SSFC provided a coherent and integrated approach with a scientific foundation that enjoyed significant political backup, and which led to coordinated efforts by major international organisations. Although economists play a leading role, the approach is interdisciplinary, with an at least implicit

grounding in happiness research (see Layard, 2005). The main findings of this research area are that after reaching a certain level, further increases in aggregate production and income have only a minor effect on subjective well-being. It is instead determined more by the distribution of financial resources, unemployment, job quality, leisure and other non-economic factors such as health or social inclusion. This evidence is corroborated by a recent survey by the OECD (2008), which concludes that there are large and robust negative effects of unemployment on well-being, after age, education and even household income are controlled for.

The SSFC integrated environmental sustainability into the thinking about progress. Their focus is limited to avoiding irreversible damage, which they postulate as a guideline for an ecological transformation of the economy. However, it is not always clear how this can be applied in practice. For example, from this point of view, finance can be considered as one of the 'sustainable' economic sectors on account of its being a service sector. This, however, is subject to a few reservations that should be mentioned here. First, the financial sector can endanger macroeconomic stability and is thus not necessarily sustainable in this particular economic sense. Furthermore, while the ecological effects of boom and bust cycles are not clear and would merit further research, there is no reason to believe that financial markets will be successful in incorporating long-term ecological risks into business and government policy valuations, since they fail at appropriately pricing even medium-term economic risks. Finally, rather than being an end in itself or even a means to an end, finance is a 'means to a means', since it serves the purposes of investment and economic growth, which themselves are means to the end of a good life or a good society. The regulatory framework of the economy should therefore be formulated to take this subordinate status of the financial sector into account. An inversion of the importance of finance through the back door of 'sustainability' is counter-productive to this debate. A more stringent formulation of the sustainability goal might thus improve the framework within which the BGD is conducted.

The following subsections put the BGD debate in context within the economic, social and environmental crisis in Europe. These are areas which would need to be addressed by policy-making at European level, but the positive response so far remains limited to the area of technical indicators.

## 2.1 Economic performance

Welfare as measured by standard indicators has fallen in Europe. While worries regarding a double dip in the U.S. have so far proven unfounded, the European economy experienced its second year of recession in 2012 after the shared recession experience in the U.S. and in Europe in 2008-2009. The European slump deepened throughout the year 2012, and it is both the EU and the eurozone area that have seen negative growth rates for two consecutive quarters in the aggregate. Europe is thus undoubtedly in an economic downturn.

From a viewpoint not centred on GDP, this does not, a priori, give rise to worry. It is quite possible for low output levels to go together with fairly high living standards and vice versa, as the differences in the ranking of per-capita GDP and the human development index for, among others, Cuba and India demonstrate. However, this does not necessarily extend to falling output, i.e. negative growth rates. Standard indicators of economic hardship, such as poverty and unemployment rates, have risen sharply in the eurozone with the crisis. Much-cited disastrous record unemployment rates above 25% and youth unemployment rates reaching around 60% in Spain and Greece provide an indication of the extent of the negative effects of falling output on the quality of life. The bleak picture is described in detail by the European Commission's report (European Commission, 2012b) on employment and social developments.

The negative effects of unemployment on both health and happiness have been known for decades, as the research by Jahoda *et al.* (1975 [1933]) in their seminal study of Austrian unemployed demonstrates. Economic crises thus have the potential of worsening alternative welfare indicators. Some reports' evidence from the European crisis countries and in particular from Greece suggests that health service quality and coverage have declined, and that suicide rates have increased.

Beyond their aggregate impact, one reason for this substantially negative effect of economic crises on the quality of life is their differential impact on income groups; in particular, low income groups may be less capable of cushioning negative income shocks and preventing slides into poverty – defined by Eurostat as the inability to afford basic necessities for a good life. Since inequality also leads to

negative effects with respect to health outcomes, especially regarding psychological illnesses, lower educational outcomes, higher prevalence of gender discrimination and higher crime and incarceration rates (Wilkinson and Pickett, 2009), the particularly negative effects of the crisis on low income groups is likely to impact the quality of life for society as a whole. In this context, broader measures for economic well-being, that focus more on consumption than on production and income, are required. Furthermore, better measures for wealth and consumption and of the distribution of income, wealth and consumption will make a discerning investigation of differential policy impacts possible. The steps taken by Eurostat (2011) towards providing these indicators are ambitious and very useful, even though the measurement of household assets beyond housing are likely to be available only in the medium term. Similarly, those capturing distribution will likely take some time due to the difficulties in harmonising the EU- Statistics on Income and Living Conditions (SILC data) across countries.

Transfers and public services in European welfare states are designed, among other things, to insure against these losses in welfare resulting from economic crises. As a consequence, so called structural reforms that reduce the redistributive effects of the public sector in the midst of an economic slump can have a negative effect on social indicators. This insight lies at the root of John Maynard Keynes' request to rekindle growth in the short run during an economic downturn, and postpone the focus on growth reduction. Viewed from a quality of life perspective, it is therefore crucial to address the cyclical nature of the current economic downturn.

The attempt to resolve the severe imbalance of aggregate demand within the eurozone one-sidedly leads to a generalised inadequacy of aggregate demand, which is exacerbated by debt overhang in some countries. Unless the import deficit countries like Austria or Germany begin to address their weakness, the downward spiral of deficit cuts and reduced economic growth in the eurozone and the European Union is likely to continue unabated. The repeated downward revisions of economic growth projections by the European Commission are a warning indication of the pressures on quality of life in Europe in the near future.

In this light, the governments in Europe should institute growth packages to stimulate demand in the short run. These should be formulated bearing in mind the long-term environmental effects of economic

growth, and could therefore include increases in government expenditures to finance employment-intensive projects with a small ecological footprint, such as government services in health, education, research and care, as well as investments in renewable energy.

While the overwhelming recent evidence on fiscal multipliers (Romer and Romer, 2010; Blanchard and Leigh, 2013) shows that especially in economic crises the financing of such measures need not be a primary concern, eurozone countries have to contend with their self-imposed austerity. Given these constraints, countries with fiscal leeway under the existing framework should balance their import deficits by expanding government demand.

However, given the current macroeconomic policy setting in the eurozone, one promising route to stabilising growth and the quality of life in Europe are Haavelmo-neutral government reforms. Named after Norwegian Nobel prize-winning economist Trygve Magnus Haavelmo, the theorem states that extending public expenditure while at the same time increasing taxation has an expansionary effect. The effect will be even stronger if the policy includes redistribution from groups with high saving propensities to those with high consumption propensities, as this can foster growth while maintaining a balanced budget. Since inequality, along with macroeconomic imbalances and unregulated financial markets, was one of the main causes of the financial and economic crisis, its reduction will have important stabilising effects on economic development.

## 2.2 Quality of life

Over the past 130 years, average work hours have fallen between one half and a third in continental Europe, and by about a quarter in Anglo-Saxon countries. For instance, weekly hours in Germany decreased from about 68 to 39 hours per week from 1870 to 1929. However, most of that fall took place at an accelerating pace until 1929, when European weekly hours reached 46 in Germany and 49 hours in Switzerland (Huberman and Minns, 2007: 548). Subsequent reductions in work time have been comparatively small, leading us to an average of about 37 hours per week in 2000.

These averages undoubtedly miss out on important differences between and within countries, including national determinants such as gender, age, job type and sector, but also internationally religion and culture, and, crucially, the strength and strategy of trade unions. Nonetheless, a secular trend of an overall fall in work hours, which is marked by a decelerating reduction since the 1930s, can be clearly distinguished across all countries.

In contrast, labour productivity increased by about 2% per year, reasonably in line with Keynes' predictions in his essay on the 'economic possibilities of our grandchildren'. However, the continued rise in productivity resulted in higher production and incomes, not a levelling off of production and extended leisure time. In addition, income-inequality increased after a period of low inequality following World War II, not just between labour incomes but especially between labour and capital income. The gains from increased productivity thus did not accrue to the working population on average in the form of either decreases in work time at constant pay, nor remuneration rising in line with labour productivity gains.

The slowdown in the reduction of working time is what lies behind the failure of the 'economic possibilities of our grandchildren' to materialise, namely, for 3-hour work days to produce the means for a comfortable life for the entire population. As a consequence, despite the remarkable productivity growth, these gains did not provide the material basis for a fulfilling and leisurely paced, yet productive work life and ample opportunities for other welfare-enhancing activities for the vast majority of the population. These other elements of a good life beyond leisure feature heavily in more philosophy-based characterisations of a good society. Social ties, health, security in a broad sense, individuality, democratic participation, and the natural environment are considered to play a part in a good quality of life. SSFC address these concerns by recommending indicators that capture the quality of life. Eurostat proposes to base itself on a set of indicators - that are, crucially, to be published individually, and not aggregated into a single index - on the data from the EU-SILC project. While the harmonisation of the country-wise developed and collected indicators is a formidable task, the thrust of the SILC data is well aligned with the measurement of quality of life, including the differential access by various socio-economic groups. The indicators proposed by Eurostat are by-and-large

outcome-based, and can be expected to give a comprehensive and comparable picture of the quality of life in Europe, even though additional indicators like involuntary unemployment and under-employment provide useful information.

The vision of a good society underlying both Keynes' essay and the SSFC recommendations contrasts starkly with the situation in Europe today, where mass unemployment co-exists with a rising toll of (mainly psychological) health problems from overwork. Unemployment in many countries in Europe, and in particular in the eurozone, is reaching levels that are threatening social cohesion. Unemployment rates of around 11% in Europe blight lives, depress aggregate demand, and polarise societies. High youth unemployment rates have a devastating effect on the job market prospects of an entire generation of recent graduates.

It is therefore crucial to distinguish between falls in average work hours due to layoffs, short work hours and involuntary part-time work, and across-the-board reductions of work time following policy changes in the standard working week and legal work time limits.

## 2.3 Sustainability

One goal of Eurostat is to further develop the data collection system concerning the environmental goods and services sector. The focus on the 'green sector' is problematic if social criteria, such as the quality of work, and economic factors, such as the net effect on the number of jobs from the change towards more eco-friendly products, are not included in the analysis. Most importantly within the environmental logic, estimating the ecological benefit of the environmental goods and service sector is difficult, because this effect depends on the basis scenario to which the ecological gain is compared. For instance, a boom in the environmental goods and service sector could be caused by more waste that requires cleaning up. Similarly, the sale of an eco-friendly car may be more eco-friendly than that of a conventional car, but it is less eco-friendly than an increase in public transport. Both the waste treatment and the eco-friendly car would result in a growing environmental goods and services sector. The environmental goods and services sector thus shares the problems of GDP of which it forms a

part, in that its size is not an indication of its environmental quality. The green economy should therefore be evaluated by results. It might thus be useful to concentrate on sustainability indicators that measure the outcome of an activity, such as for example greenhouse gas emissions, and not the activity itself, such as recycling.

Some people argue that our economic system is based on depleting natural and environmental resources and that this system could reach its limits. However, it is important to bear in mind that there are certain biophysical limits beyond which the ecological system approaches the risk of a 'tipping point'. This contribution takes an anthropocentric view, so we concentrate here on environmental problems that may threaten so-called 'life support systems', and sustainability indicators that signal whether the economic system is located within or beyond the 'safe operating space of humanity'. Research initiated by the Stockholm Environment Institute identified nine such 'life support systems' that exhibit limiting boundaries. These are climate change, the rate of terrestrial and marine biodiversity loss, interference with the nitrogen and phosphorus cycles, stratospheric ozone depletion, ocean acidification, global freshwater use, the change in land use, chemical pollution, and atmospheric aerosol loading (Rockström *et al.*, 2009).

In three of the nine life support systems, the economic system is in the danger zone. These are the interference with the nitrogen cycle, the rate of biodiversity loss and climate change (Rockström *et al.*, 2009). The latter receives the most attention in environmental issues, which is in part due to its feedback effects on other environmental problems. For instance, 15-40% of all species on earth are considered at risk of extinction because of climate change (Stern, 2007). Because of this key function, and because of its impact on human life, we concentrate here on climate change.

The main indicator for evaluating the effects of policy measures that aim at tackling climate change are greenhouse gas emissions. These are measured in tons of CO<sub>2</sub> equivalents, and the available evidence shows clearly that greenhouse gas emissions are increasing.

While some countries in the northern hemisphere could potentially benefit from moderate climate change that brings about slightly higher temperature, the consequences of the current pace of climate change

are negative, especially for low-income regions and the poorest. Climate change increases damage from extreme weather events, it leads to declining agricultural yields and rising sea levels (Stern, 2007).

Addressing climate change would have beneficial side effects. First, economic effects in the medium to long run include reduced cost from climate damages. According to some calculations, expenditures on tackling climate change would cost just 1% of GDP, while unhampered climate change could lead to costs of at least 5% of GDP (Stern, 2007)<sup>1</sup>. Second, tackling climate change ameliorates social imbalances. While the high-income groups and countries disproportionately cause climate change, the negative consequences of climate change affect the poor more severely.

New, greener technologies can play a pivotal role in reducing emissions, mostly through the realisation of efficiency gains. However, the rebound effect counteracts this benefit of technological change, since efficiency gains can cause more energy or natural resources to be used. If prices are lower due to improved technology, then this can lead to higher consumption. In the aggregate, some or all of the reduction in resource use per unit produced may be thus offset. The price effect can also work through the paradoxical effect of a successful reduction in energy consumption. The lower resource demand resulting from improved technology can lead to falling energy prices, which then induce higher energy consumption.

As a consequence, most countries have not managed absolute decoupling of GDP growth from material and resource use. While the European Union's decreases in greenhouse gas emissions could be seen as an example for absolute decoupling, it is important to recognise that this decrease was essentially due to the devastating deindustrialisation in Eastern Europe and, more recently, a by-product of the dramatic economic crisis. However, there are some positive examples. The United Kingdom and Germany were able to reduce greenhouse gas emissions in growing economies. This effect holds even when the

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1. It should be noted that these results hinge on the discount rate, and that the one used in the Stern Review is extremely low (0.1%). A higher discount rate affects the size of the results, but leaves them qualitatively unchanged.

deindustrialisation in the former German Democratic Republic is taken into account.

It should also be noted that for emissions, their global level is the relevant factor. Shifting emissions between countries, for instance by relocating production, does not improve the overall situation with respect to climate change.

For the purpose of this chapter, the relevant question is which economic policy measures could support a socio-environmental change, which includes tackling climate change. In this context, the social consequences of policy solutions are crucial not just because quality of life encompasses social goals, but because of social justice and pragmatic policy considerations. As mentioned, the rich are disproportionately responsible for causing climate change, while the poor are affected disproportionately. From a realpolitik point of view, governments disregarding social issues are unlikely to have sufficient clout to take strong measures to address climate change.

On this basis, some economists and many environmentalists argue that no growth or even de-growth strategies can help overcome environmental problems (see Jackson, 2009). The reason is that greenhouse gases are primarily determined by population, the level of per-capita GDP and the greenhouse gas intensity of GDP, that is, technology. Because population growth is not easy to influence quickly and while respecting human rights, and reductions in the greenhouse gas intensity have not taken place fast enough at least historically, zero or negative growth seems to them to be the only feasible way to reduce emissions.

However, such a strategy has substantial disadvantages. De-growth endangers social security systems, it exacerbates conflicts in distribution and it increases unemployment. Falling income can even exacerbate local environmental problems.

The relationship between greenhouse gases and growth also depends on the nature of growth. On average, it seems plausible that growth in the secondary sector is more greenhouse gas intensive than growth in the tertiary sector.

Even proponents propose de-growth only as a solution for rich countries. As a consequence, many countries including China, the world's largest greenhouse gas emitter, would not be affected by this solution.

Considering the political and social hurdles, a political consensus for de-growth seems very unrealistic. Finally, from a political economy point of view the argument is logically inconsistent. Because politicians have been demonstrably unable to take measures against climate change, they are requested to take even stronger measures against growth.

### **3. The BGD in the 1970s and thereafter – lessons learned?**

As the current BGD is quite similar to critiques of GDP as a measure of progress in the 1970s, this section asks how this time could be different, and what factors can be identified as supportive to the establishment of new indicators for the measurement of economic performance and social progress. These historical aspects have received limited attention in the current debate, although such an analysis could be a good starting point.

In the 1970s, the critique of GDP had two main dimensions. On the one hand, there was a discussion on the ecological limits to growth, mainly triggered by the eponymous study on behalf of the Club of Rome (Meadows *et al.*, 1972). On the other hand, there was a discussion about social/welfare statistics as a complement to the system of national accounts, mostly driven by international organisations.

Illustrating the first aspect of these critiques, Gunnar Myrdal (1973: 208) put it bluntly by concluding that 'The concept of GNP and the whole structure of theoretical approaches built up with the GNP as a central axis, will have to be dethroned.' However, he was realistic about the difficulties of such a project, because 'the psychology and ideology of unrestrained economic growth has meanwhile retained its hold over peoples' minds' (*ibidem*: 219). Necessary as it might have been from an ecological point of view, a planned slowdown of economic growth or even de-growth did not seem likely (Chaloupek and Feigl, 2012).

The second strand of the BGD in the 1970s, concerning social indicators, did not fare much better in terms of changing economic debate, even though it received more attention. The basic idea was to create a broader set of relevant indicators, which should then be the main focus in evaluating the progress of societies. GDP or another indicator from the system of national accounts could be part of the set, but would not receive more relevance than for example employment, health or education. In the economic policy debate, the ‘magic polygon’ (Rothschild, 2005) can be seen as a first attempt to include not only economic growth, but also full employment, price stability, income distribution and a balanced foreign sector into the analysis. However, this formulation did not lead to the definition of concrete indicators. It did make clear, though, that a balanced economic policy mix cannot focus on one single indicator or even a composite index, as there are trade-offs between the policy goals.

A more specific project was first launched in the context of the United Nations even earlier, when the international foundations for the system of national accounts – and therefore GDP and GNP – were established in the 1940s and 1950s. Costanza *et al.* (2009: 5) mention the Bretton Woods conference as a starting point, where the political goal was to foster ‘economic progress everywhere’ to prevent war and destruction. At that point, GNP became the key indicator. However, before the final report was published in 1953, the UN Economic and Social Council appointed an international expert group to elaborate ‘the most satisfactory methods of defining and measuring standards of living and changes therein in the various countries’ (United Nations, 1954: 176). They proposed a set of indicators as ‘... levels of living must be approached in terms of a series of components (health, nutrition, education, etc.) and their statistical indicators, rather than in terms of any unitary monetary index, such as per capita national income’ (*ibidem*).

However, the implementation of the social indicators was sluggish due to a lack of political support, technical problems and poor coordination between the UN organisations, while the system of national accounts became the central reference point for economics. In 1970 the OECD launched a social indicator project on their own (see Beirat für Wirtschafts- und Sozialfragen, 1976) with similarly mixed results. The successor report, ‘Society at a Glance’, was published two decades later in 2001 and did not gather widespread public attention either.

The only example of a successfully established new indicator is the UNDP's Human Development Index (HDI), which is now part of every country profile. Amartya Sen was one of HDI's 'parents'. As he also played an important role in the current efforts to go beyond GDP, there might be reason to hope that the current debate will lead to tangible outcomes. The HDI is theoretically based on Sen's capability approach and thus includes education, life expectancy, and GDP per capita as a measure of the potential for 'the conversion of income into the fulfilment of human needs' (UNDP, 1990: 13). This strategy of going beyond GDP without abandoning it entirely might have been one of the ingredients for the HDI's relative success.

However, in sum the proposals for alternative indicators did not achieve the same statistical quality, nor did they receive similar attention, as GDP. On the contrary, GDP itself has become ever more important. Today even minor changes in projected economic growth are covered extensively by the media and discussed in politics. The reasons for the limited importance of alternative indicators may lie in developments in the economy and in society more generally. After the second oil price shock, the golden age of full employment drew to an end, with a major shift of policy away from redistribution and growth of the real economy towards financialisation and liberalisation. Andrew Sharpe, Director of the Canadian 'Centre for the Study of Living Standards' characterises the era as one of 'tighter government finances; a more conservative ideology adopted by a number of governments; and a perceived lack of usefulness of social indicators in policy making' (Sharpe, 1999: 7). He relates this to alternative indicators by noting that 'this latter factor in turn may have been due to the overly simplistic view of how knowledge influences policy that had been put forward by the social indicators movement.'

With the ensuing slowdown of economic growth and a tightening of public finances, the attention has since been no longer focused on the problem of 'too much' but 'too little' economic growth. This slowdown was not a harbinger of the ultimate limits to growth, as demonstrated by the next decade, which saw a long upswing with yearly growth rates around 2.5 % of GDP.

A report in the context of the UN Statistical Commission comes to a similar conclusion, but furthermore highlights the role of societal structures, group interest and decision making (Becker *et al.*, 2000: 404):

‘Society expends resources on the collection of official statistics because of the perceived need by the society for the data in public policy decision-making. Most of the central discussions, in market economies at least, have been economic ones. In many cases social discussions have taken a back seat to economic ones.’ Therefore, more and better information is no guarantee for better policies. The major barrier is rather the lack of homogenous interests and the resulting conflicts over welfare decisions.

In the early debate in Austria, Herbert Ostleitner concluded that it is unlikely that social indicators will take the place of GDP in a capitalistic society. That is because the latter is related to private capital accumulation, which can be seen as the central systemic variable of capitalism (Ostleitner, 1975: 15). Following Polanyi (1977), this begs the question of how the economic system can be re-embedded into society, that is, how the logic of enforced growth can be fenced in so that societal goals achieved through democratically legitimated decisions can be moved to the foreground. This includes the question of how ecological boundaries can be respected, since societies are ultimately embedded in nature.

This section provided a brief brush over the historical debate on alternative indicators of societal progress. A more thorough evaluation of past initiatives would be helpful to inform the current BGD, but the general thrust is clear: notwithstanding the HDI, the debate in the 1970s failed to sustainably shift the focus of policy makers from GDP to well-being and the environment. Against this background and the conclusion from the first section that the current debate in Europe is threatened with a similar fate despite the economic, social and environmental crises, the next section focuses on policy suggestions, from a progressive vantage point that can possibly lead to improvement in all three of these areas.

#### **4. Employment, distribution and conversion as the way beyond GDP?**

If there was political will to shift the focus from GDP and macro-economic surveillance to topics that are more directly linked to well-being, such as a more balanced policy-mix, it would not be that hard to find appropriate indicators measuring progress. Furthermore, there are

some areas of economic policy where stronger engagement can reinforce other economic goals, with only minor conflicts with other aims. These potential areas of increasing well-being without harming other goals should be the central focus point of economic policy. We think that there are basically three areas: good and sufficient employment, a more equal distribution of income, working time and wealth, and stronger investment in the conversion of the economy so that environmental degradation will be constrained.

If the European governance and policy framework were thus focused more on combating unemployment, fostering a fair distribution of income, wealth and working hours and encouraging an ecological transformation of the economy, it would feed more naturally into an agenda of progress and well-being. De-growth, on the other hand, cannot be a viable common solution for environmental, social and financial problems. As a consequence, we propose a reduction in working hours as one central measure of a socio-ecological transition. Furthermore, we argue that redistribution is a precondition to a reduction in working hours and that both have favourable environmental effects.

Theory tells us that productivity gains can be channelled into an increase in production and consumption, or into a reduction of working hours. An important caveat to an environmentally and socially effective reduction in working time is that it is usually found to raise productivity (Foley and Michl, 1999; Rezai *et al.*, 2013). However, these gains are not sufficient to offset the decrease in work hours entirely. Another caveat concerns the affordability of work time reductions, especially for low-income groups. Here it is important to remember that these measures are the result of a political process. As a consequence, their costs have to be shared between employers and employees, so that the outcome will have to lie somewhere between the two extremes of a full pay cut and a continued payment of wages in their entirety. Under a socially responsible solution, the reduction in work time per person can decrease unemployment rates, it has the potential of improving the gendered imbalance in market work and unpaid care work, and it can improve health through a better work-life balance and therefore increase well-being. Decreasing working hours also means less greenhouse gases. Moreover, more time for leisure is also an incentive for an environment-friendly lifestyle, because people are able to switch from energy intensive but time-saving consumption styles to more time

intensive consumption styles, such as for example walking instead of driving a car. Both effects are established in the empirical literature (Rosnick and Weisbrot, 2006; Knight *et al.*, 2012; Hayden and Shandra, 2009). A crucial obstacle to an effective reduction in working time and an ecological transition of consumption and lifestyle patterns is the ‘rat race’, in which the members of high-income societies are caught despite the latter being able to afford a high standard of living for everybody. Known among economists as the ‘relative income hypothesis’ (Stiglitz, 2008; Bowles und Park, 2005), it describes the situation in societies with entrenched inequality, where top earners try to increase income gaps by working more and harder, while the poor and the middle class try to reduce the gap to the top by also working more and harder. This behaviour is a zero sum game. If everybody works more, nobody gains in relative status, and everyone including the environment is worse off. Inequality is therefore not only a social and financial problem, but because it prevents a reduction in working hours, it is also an environmental problem (see Sturn and van Treeck, 2010). Redistribution, as part of a changed economic policy framework that improves the quality of life, is thus the central element in the strategy proposed here.

Redistribution helps the environment beyond its effect on working hours. Eco-friendly behaviour can be explained as a form of altruism, because it is unclear how much of its positive effects will accrue to the individual undertaking it. At the same time, more egalitarian societies engender altruism, because they are experienced as fairer, which increases the likelihood of non-self-serving behaviour. This is the reason why people in more egalitarian societies recycle more waste, the acceptance of environmental friendly measures is higher and greenhouse gas emissions tend to be lower (Wilkinson and Pickett, 2010).

Redistribution also has positive effects on a number of social indicators. More unequal societies tend to have lower educational outcomes, they have worse gender discrimination and they also exhibit higher crime and incarceration rates (Wilkinson and Pickett, 2009). In the context of the ongoing crisis in Europe, redistribution, especially of working time, would be a crucial step in coping with the effects of the ongoing crisis and changing the economic policy framework to one that is more conducive towards a better quality of life. High and increasing inequality was one of the key contributors to the build-up of imbalances in the eurozone

(Fitoussi and Stiglitz, 2009; Horn *et al.*, 2009). Redistribution fosters stable economic growth due to adequate aggregate demand, and the shrinking of volatile speculative capital which results from the high saving rates of high-income groups.

Finally, this socio-environmental transition needs to be supported by investments in environmentally-friendly technologies. Investments in, for instance, renewable energy, public transport and thermal insulation would not only help reduce greenhouse gas emissions but also improve current accounts. Whereas the net employment effects of a transition to renewable energy are small, yet positive, investment in public transport systems and thermal insulation can help reduce unemployment substantially.

## Conclusions

This contribution aimed at giving an overview of the current Beyond GDP debate. Although its start in Europe was promising, it was brought up short by the ideological shift in the wake of the financial crisis towards a narrow macroeconomic trinity consisting of austerity, structural reforms and competitiveness. This effectively closed off the opportunity to shift the economic policy focus in the European Union to well-being and social progress within environmental boundaries.

This development shows remarkable parallels to a similar debate in the 1970s. At that time, neoliberal forces gained momentum in an economic crisis which pushed the development of alternative indicators out of the focus of economic policy makers. Yet, there is hope that the debate will be kept on the agenda this time by the fact that the debate today is much more evidence-based, and by the growing literature on the shortcomings of GDP as a measure of well-being and societal progress. The advances in European statistics in developing alternative indicators of economic, social and environmental well-being nourish this view. However, it is far from clear whether more statistical indicators by themselves will necessarily lead to tangible policy outcomes of continued progress along social and environmental lines. This contribution thus proposed central measures to improve the quality of life, including a reduction in work time, redistribution and investments in socio-ecological transformation.

The success of the project depends on continuing political pressure from environmental groups, as well as from the European labour movement and others, to change the economic policy-mix. Their critique needs to be combined with a new social-ecological project with common goals, which in turn will have to be measured. Conferences like that organised by IG Metall in 2012 on 'Change for a good life' (IG Metall, 2012), with the aim of combining good working conditions, ecological transformation and democracy, prove that important players are conscious of the need to establish such alliances.

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