A NOTE FROM THE POLISH PUBLISHER

The complexities and challenges of socioeconomic performance measurement

The book that the Polish Economic Society (PTE) brings to the reader deals with an issue of fundamental importance to the functioning of the economy and society, that is, how to measure the overall performance of the business sector, labor activity, etc. This is already the second book published by the PTE on socioeconomic metrics. The first one, released six years ago, was a translation of the 2009 report entitled *Mismeasuring Our Lives: Why GDP Doesn't Add Up*, commissioned by French President Nicolas Sarkozy and authored by two Nobel Prize winners, Joseph Stiglitz and Amartya Sen, as well as Jean-Paul Fitoussi. The mismeasurement mentioned in the title implies a discrepancy between economic figures and reality – the "true" values, which, according to the report, often remain unknown. This dissonance, however, does not result from some computational error, but from measurement complexity and methodological choices. The ongoing dynamic changes brought about by the fourth industrial revolution only add to that complexity, laying bare the shortcomings of gross domestic product (GDP) – an indicator of new value created in the market – as a metric of socioeconomic performance.

This publication is a translation of the report entitled *Beyond GDP: Measuring What Counts for Economic and Social Performance* by Joseph E. Stiglitz, Jean-Paul Fitoussi, and Martine Durand, originally published by the OECD in 2018. The subtitle of the report is notable as it emphasizes measurement intricacies. It also brings to mind the fact that Simon Kuznets, who first proposed a metric for new value created in 1937, postulated that it should include only those goods and services that improve the quality of human life, while the current methodology focuses on the purely quantitative dimension of economic performance, thus significantly departing from Kuznets' original idea.[1] At the end of the 1960s, this was sarcastically pointed out by Robert Kennedy, also quoted in this book, who warned that GDP "measures everything, in short, except that which makes life worthwhile."

This publication discusses the importance of improving socioeconomic performance measurement and the challenges it entails. As it has been aptly noted by the Authors, the elimination of measurement deficiencies is critical as how we work or what we do primarily depends on how our performance is quantified. Indeed, the measuring method always affects the behavior and decisions of those subjected to measurement, whether directly or indirectly. If the results are inaccurate, incomplete, or otherwise flawed, they may distort the functioning of society and the economy, leading to costly, erroneous decisions.

Therefore, the book is highly recommended for anyone striving to gain a better understanding of both the intricacies of socioeconomic performance measurement and its implications for the economy and human activity. This publication merits serious consideration not only because it was authored by eminent scholars, including Nobel Prize winner in economics, Joseph E. Stiglitz[2]. Crucially, like the previous report, it addresses people's subjective feelings, perceptions, and sentiments, such as happiness and dissatisfaction with one's personal or professional life. The book elucidates the fundamental reasons why the views of individuals increasingly often diverge from the assessments of socioeconomic development predominantly based on the volume of GDP generated in the various countries.

It should be noted that GDP, developed by Kuznets in the USA, did not become widely adopted until after World War II, and that with numerous modifications, often significantly

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[1] S. Kuznets – winner of the Nobel Prize in economics *for his empirically founded interpretation of economic growth which has led to new and deepened insight into the economic and social structure and process of development.*

[2] Joseph E. Stiglitz was awarded in 2001 for his research into information economics, and in particular for his analysis of markets with asymmetric information.

diverging from the original concept. This was emphasized by the Authors of the present book: "But, as time went by, and as the sophistication of analyzing the inter-relationship among different data series increased, the attention paid to the data series themselves, and in particular, to the limitations of GDP as a welfare metric declined. The result was that the reliability and relevance of results of analysis in areas such as macro-economics that were heavily reliant on GDP measures may have declined too. The paradox is that those who built the system knew of its shortcomings and were cautious when using it.[3] But as the general understanding of these indicators and their construction diminished, their use became more widespread and their limits were forgotten by most users. While GDP had been designed and used to measure market activity, increasingly it became a thermometer used for assessing the general health of societies."

Currently, GDP is the prevalent indicator of economic activity, used for making comparisons across geographic regions and periods. Although it is founded on a firm conceptual and statistical framework and is subjected to international standards, its inadequacies are becoming increasingly apparent in relation to its faulty practical applications.

GDP reflects aggregate value added (the difference between the value of total output and the value of the goods and services used to produce that output), or, put simply, the net value of final goods and services produced in a given unit of time within a given country or region. In extremely simplified terms, GDP can also be conceptualized as the sum of workers' wages and investors' profits from capital. As can be seen, GDP is essentially a measure of market output as such. Even though it is incorporated in various indicators gauging economic progress, it does not directly translate into national welfare or societal well-being (although it is a contributing factor). This is because GDP does not account for non-market activity,

[3] As reflected in the famous joke by Paul Samuelson: "what happens to GDP when a professor marries his servant?

including the all-important domain of household production. Therefore, GDP is insufficient as a benchmark of socioeconomic development. Limiting oneself to GDP-based assessments without in-depth holistic analysis (also qualitative) may lead to invalid policy conclusions resulting in grave errors.

That is why, the title of the book encourages us to go *beyond GDP* and design supplementary indicators (including welfare metrics) to guide policy-makers. They also cite experiences from selected countries pursuing a path of improving measurement tools.

Given the increasing complexity of socioeconomic performance measurement, the Authors are right to call for continued work of the Stiglitz–Sen–Fitoussi Commission. Indeed, the growing vulnerability of the global economy to crises makes it essential to better assess economic downturns. This issue was given a separate chapter identifying research gaps and deficiencies of the available data.

To fully realize the ambiguities of GDP measurement, one should bear in mind that it includes both socially useful goods and “anti-goods,” the latter being harmful to harmonious socioeconomic development. In GDP, equal weight is given to manufacturing and, e.g., gambling profits. Illustrating this issue, the Authors draw on the literature, quoting amongst others Simon Kuznets, who observed that “no one would welcome an acceleration of the overall rate of economic growth that was associated primarily with a market increase in defense expenditure” and proposed that “effort must be exerted to formulate a consensus (on a list of desirable contents of economic growth, omitting the vulgar, the frivolous and the dangerous) . . . and to reformulate it in response to changing conditions”.

The aforementioned shortcomings of GDP (e.g., equal treatment of socially desirable and undesirable goods, failure to account for social and environmental changes) have now been compounded by the fact that GDP has not been adapted to the ongoing technological and civilization transformation. For instance, GDP fails to adequately reflect the rapid expansion of the sharing economy and the spread of zero marginal costs enabled by the Internet.[4] The growing variety of available products and their widespread personalization, as well as the blurred line between leisure and work in many creative professions implies that GDP-based statistics may underestimate societal welfare (but they may also overestimate it).

One should take into account the fact that part of the income generated in the country is transferred abroad, while some residents may derive revenues from foreign states. While these financial flows are not included in GDP they do fall under another metric – gross national income/product (GNI). GNI will be lower than GDP if, e.g., foreign investors remit their income to their home countries. Their income is included in GDP, but it does not increase the purchasing power of the country's inhabitants. Thus, the Authors of this book clearly act on the observation from the previous report stating that *for a poor developing country to be told that its GDP has gone up may be of little relevance. It wants to know whether its citizens are better-off, and national income measures are more relevant to this question than GDP*. It would therefore be desirable for GNI to gain currency in economic analyses.

There are many more examples of socioeconomic measurement complexities culminating in what has been called a "theater of numbers" in which datasets and statistics form a curtain separating us from reality.

Concerns of this kind have been voiced by numerous scholars and practitioners alike and discussed in many publications, including those translated and released by the Polish Economic Society. Vulnerabilities are indicated in numerous book titles referring to market

[4] For more see: E. Mączyńska, *Tajemniczy i (nie)zawodny PKB* [The mysterious and (in)fallible GDP], "Biuletyn PTE", 2019 no. 3.

limitations, lack of transparency, deceptive metrics (often detached from the calculus of social costs and externalities and marked by short-termism).

In addressing the aforementioned measurement challenges, the Authors strive to stimulate reflection and efforts to develop more useful tools for socioeconomic performance measurement. This is aptly captured by the title of the report, which suggests transcending GDP and taking into account other indicators to capture changes in well-being. The Authors write about the need for multiple measures (a dashboard of indicators), reiterating the thesis formulated in the previous book that there is no single metric that could possibly gauge something as complex as social well-being. And an insufficient set of data may lead to wrong inferences, while politically-motivated, persistent attempts to find ways of boosting GDP may in some extreme cases deteriorate quality of life.

The present book seeks new, better measures of socioeconomic performance, social well-being, national welfare, and quality of life, building on previous efforts in this respect. It should be noted that this issue has also been discussed in the Polish literature. For instance, with reference to one of the recently developed metrics, the *Gross National Happiness Index* (GNH), Grzegorz W. Kołodko, calls for further work to design an "Integrated Success Index."[5]

The Authors postulate that metrics should more comprehensively reflect the well-being of most citizens (e.g., median income), the situation of the least fortunate (e.g., poverty indices), the condition of the environment (e.g., indicators of resource depletion and environmental degradation), and economic sustainability (e.g., measures of debt and economic threats,

[5] Grzegorz W. Kołodko, *Wędrujący świat* [Truth, Errors, and Lies: Politics and Economics in a Volatile World], Warsaw, Wyd. Prószyński i S-ka, 2008.

including vulnerability to crises). The need for improving the measurement system is additionally heightened by the advent of the fourth industrial revolution.

Although the book does not offer a final solution to the questions and objections it poses with respect to socioeconomic growth measures, indicating a need for further research on the subject, it certainly reminds scholars about the limitations and shortcomings of the existing metrics, which may provide a strong stimulus for scholarly efforts to enable more accurate guidelines for socioeconomic development.

The book should be compulsory reading not only for academics and students, but especially for economic and social policy-makers. It is an eye- and mind-opener of sorts, given that although GDP remains one of the most popular economic indicators, it does not seem to be fully comprehended or correctly interpreted. Indeed, it has been said that GDP is one of those notions in economists' jargon that sound very familiar, but may not be very meaningful.

Again it is my great pleasure to recommend this book, with the readers' comfort being assured by Prof. Zbigniew Matkowski' perfect translation.

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