Mistakes in economic measurement and in the quality of life

Prof. Elżbieta Mączyńska

President of the Polish Economic Society

One of the most important issues both in the theory of economics and in the economy is the measurement of the level of economic and social development and the quality of life. Not only are these issues not satisfactorily solved, but they are actually growing more complicated with the progress of globalization and social and economic complexities.

The measurement method always affects the behaviour and decisions of those who are directly or indirectly affected. If incorrect or incomplete, it may lead to social or economic irregularities. Therefore, the Polish Economic Society decided to publish, as part of the series "Economic Nobel Laureates", Polish translation of the book "Mismeasuring Our Lives: Why GDP Does not Add Up" by Joseph E. Stiglitz, Amartya Sen and Jean-Paul Fitoussi. The authors attempt not only to identify measurement irregularities, but also to set trends and suggest possible solutions.

This publication deserves attention not only because its authors are eminent economists, including two winners of the Nobel Prize in economics awarded since 1968 by the Bank of Sweden. Amartya Sen won it in 1998 for his contributions to the welfare economics and Joseph E. Stiglitz in 2001 for the research into the economics of information and for analyses of markets with asymmetric information. The most important argument in favour of reading this book is that it largely refers to individual feelings, moods, evaluations, including the lack of happiness or satisfaction with life, either professional or personal. The book explains why these feelings increasingly deviate from the general assessments of ongoing social and economic developments, based mainly on the GDP rates in particular countries.

GDP is the aggregate value added (the value of output minus the value of the intermediate goods used to produce that output), that is, in simple terms, the net value of final goods and services produced in a given unit of time in a given country or region. It can be said that GDP is the sum of the country's annually generated profits and wages. GDP is the most popular and widely used measure of economic activity, allowing comparative analyses in space and time, a measure that is subject to international standards and has well-established conceptual and statistical grounds.

But GDP is only a measure of market production. This does not cover the effects of non-market activities, nor many other important phenomena. Therefore, relying merely on assessments based on GDP, without in-depth, holistic, qualitative analysis, without account taken of additional indicators, may lead to false conclusions that may result in costly mistakes in social and economic policies. The famous aphorism by Albert Einstein, which gains in popularity these days, might well be quoted here: "Not everything that can be counted counts, and not everything that counts can be counted".

To illustrate the twists and turns of measuring GDP suffice it to say that this category does not include many socially useful, but non-market activities. For example, bringing up children and looking after them, or other household tasks do not increase the GDP. Hence the extension or redecorating of the house on one's own do not add to GDP as much as if the works were performed by an external contractor, even though the effect is the same. The same goes to a large extent to voluntary and social work. By contrast, the existence of prisons, or treating roads with salt in winter increase the size of GDP. And so does advertising, which is, by the way, often excessive and therefore irritating. GDP is also boosted owing to financial speculation that happens to harm businesses in the real economy. In addition, some part of the income generated domestically is sent abroad; on the other hand, some people receive income from abroad. These flows are not reflected in GDP, but in the so-called national income. The national income is lower than GDP if, for example, foreign investors transfer profits to their home countries. These profits are included in GDP, but do not increase the purchasing power of the country's citizens. That is why for the country, especially a developing one, the fact that its GDP grows may be of minor significance. What is important to consider is first and foremost raising people's quality of life. The measures of national income in such a case are much more relevant than GDP.

These examples point to a kind of a theater of numbers, with data and statistics forming a curtain that cuts us off from reality. Therefore, the authors of the book "Mismeasuring Our Lives" propose solutions to improve the measuring of social and economic achievements, and above all to assess whether and how these translate into people's quality of life. That is what makes the value of the book. ::