

Replacing GDP

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What makes us better off?

For the last century we have pursued increased well-being and quality of life through more and more economic growth, as measured by Gross Domestic Product (GDP)- the headline indicator of progress. But the side-effects of economic growth are increasingly making us worse off. GDP takes no account of increasing inequality, pollution or damage to people's health and the environment. It treats crime, divorce and other elements of social breakdown as economic gains. This current model of 'progress' is cheating on ourselves, other countries and future generations. We need to redefine progress, and replace GDP with new indicators of progress, which measure how our national policies truly deliver a better quality of life for all.

The need for change

The Government says that sustainable development is about “ensuring a better quality of life for everyone, now and for generations to come”. So, to achieve sustainable development, we have to ensure that our economic, social and environmental policies are all aimed towards increasing our quality of life.

To do this, we need indicators to measure our progress. For environmental issues, we have many indicators - such as levels of air pollution, bathing water quality or the number of butterfly species. For social issues, there are indicators such as life expectancy and crime rates. These are all measures of our quality of life.

However, for economic issues, the main indicator of progress is GDP , or economic growth. Using this indicator we are assuming that any and all economic activity is good, regardless of whether this activity improves or directly damages our quality of life. GDP is leading us in the wrong direction. It needs replacing as an indicator of progress.

It is even more important for us to replace GDP because in the cut and thrust of politics this economic indicator takes precedence over all other indicators - economic, social or environmental. We need indicators which look at the quality and not just the quantity of economic activity. As Gordon Brown said in his pre-budget statement on environmental taxation “Quality of growth matters; not just quantity”. Without such indicators we will not be able to judge progress towards, or set aims for, a sustainable economy which meets people's needs and improves quality of life.

New Indicators

Friends of the Earth is working with the Centre for Environmental Strategy (CES) , the New Economics Foundation (NEF) and others to put forward alternative economic indicators to GDP. The most advanced is the Index of Sustainable Economic Welfare (ISEW), which has been calculated for 8 countries, and has just been revised in the UK by CES, NEF and Friends of the Earth. It corrects GDP over a range of issues such as, income inequality, environmental damage, and depletion of environmental assets, to create an indicator which better measures how our economy delivers welfare for people.

Some people argue that the ISEW is too subjective and too susceptible to changes in the assumptions which underpin it. But the problems in constructing such indicators can and should be overcome. To answer these arguments, this website shows how the ISEW is constructed, and invites you to change the weightings and assumptions used in the ISEW to

create your own ISEW. In our view, this site shows that the ISEW is a good basis on which to construct alternative indicators.

We would like to hear your comments and suggestions on how the ISEW could be improved and on what values should shape the construction of it or other alternative indicators. Moving away from simple measurements of economic quantity, to working out economic quality, inevitably requires society to set out what are the baseline aims and goals for economic policy. There need to be criteria by which we can judge how well our economy is delivering quality of life.

Government Policy

The Government is currently revising the UK's Indicators of Sustainable Development, which were set up by the previous administration in 1996. This revision is likely to include more "social" indicators to complement the mainly economic and environmental set previously published. It is also likely to include a set of 8-10 "headline" indicators - on a range of environmental, social and economic areas which aim to provide a broad overview of the state of UK progress towards sustainable development.

The other major potential improvement in the strategy is the use of an alternative economic indicator - one which shows how well economic policies are delivering on sustainable development objectives. Alternative economic indicators were strongly promoted by Labour in their 1994 environmental policy document 'In Trust for Tomorrow'. This document - was produced by the environment policy committee which includes six current cabinet members. It sets out a strong critique of GDP as an indicator of "economic and political success"; it states that the quality of economic growth must be measured as well as the quantity, and it also pledges to develop "a range of indicators of National Economic Welfare."

In July 1998 the Parliamentary Environmental Audit Committee also endorsed the need for alternative economic indicators, stating that: "We consider that a new single measure of welfare could play a very useful part in increasing awareness of the different elements that contribute to the well-being of society and to the achievement of sustainable development. There are technical and judgemental challenges in constructing such an index, but we recommend that the Government should examine this concept with a view to developing and publishing an index of this kind itself by the year 2000."

We hope that the indicators strategy will take up this challenge. There is a need for alternative indicators of economic welfare, and the way forward is for the Government to use the pioneering work of ISEW, put resources into developing indicators of economic welfare, and make them headline indicators of progress. This should be one of the key components of the Government's forthcoming indicators strategy.

ISEW Explained

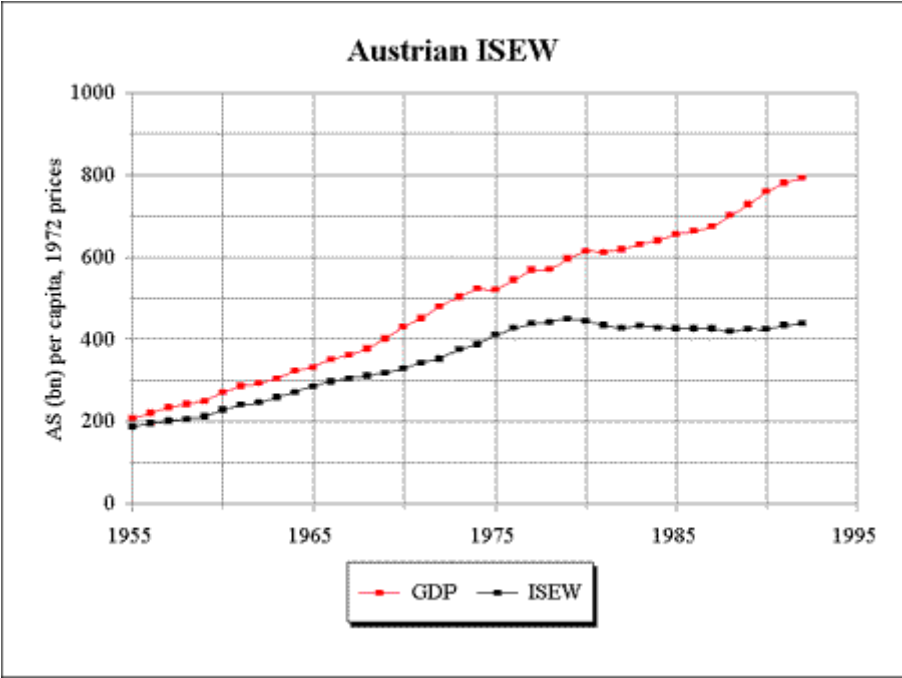
The ISEW is one of the most advanced attempts to create an indicator of economic welfare. It is an attempt to measure the portion of economic activity which delivers genuine increases in our quality of life - in one sense 'quality' economic activity. For example, it makes a subtraction for air pollution caused by economic activity, and makes an addition to count unpaid household labour - such as cleaning or child-minding. It also covers areas such as income inequality, other environmental damage, and depletion of environmental assets. View our step by step explanation of the terms

What the critics say about ISEW

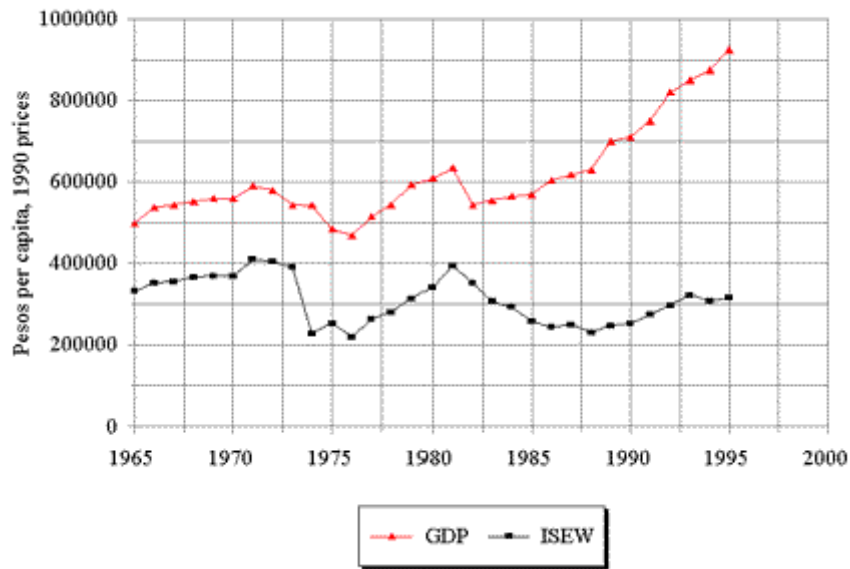
However, this is not a simple process - for ISEW is still an economic measure, and to make these corrections financial costs have to be assigned to non-financial impacts such as climate change and ozone depletion. This problem has been noted by some commentators - who say that the use of such 'non-statistical' judgements invalidates the utility of ISEW. However, this is even more of a problem for GDP when it is used as an indicator of progress - for its own value judgement is that these adjustments be set at zero. We feel that there is nothing inherently wrong in using values to construct indicators - for national goals for progress are similarly based on values not statistics. However, it is fair to suggest that currently the weightings used in the ISEW could be arbitrary, or reflect the prejudices of the Index's creators. But it is less reasonable to suggest, as ISEW's critics do, that if the assumptions built into the Index were changed then a very different index would appear.

We aim to address these concerns on this site by showing the assumptions in the ISEW, and allow users to change these assumptions to create ISEWs of their own. We hope this will show the ISEW to be relatively robust, that users' comments can highlight areas where improvements can be made, and that the values people choose can start to highlight which are the most important areas to be covered in any national indicator of welfare.

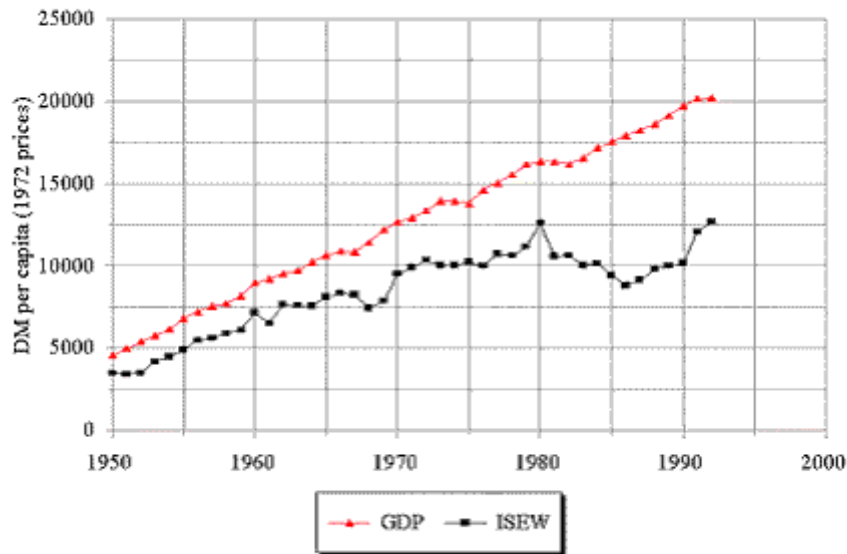
There are 19 adjustment terms built into ISEW. See how these factors affect the value of ISEW as plotted against GDP, and read an explanation of the different terms.



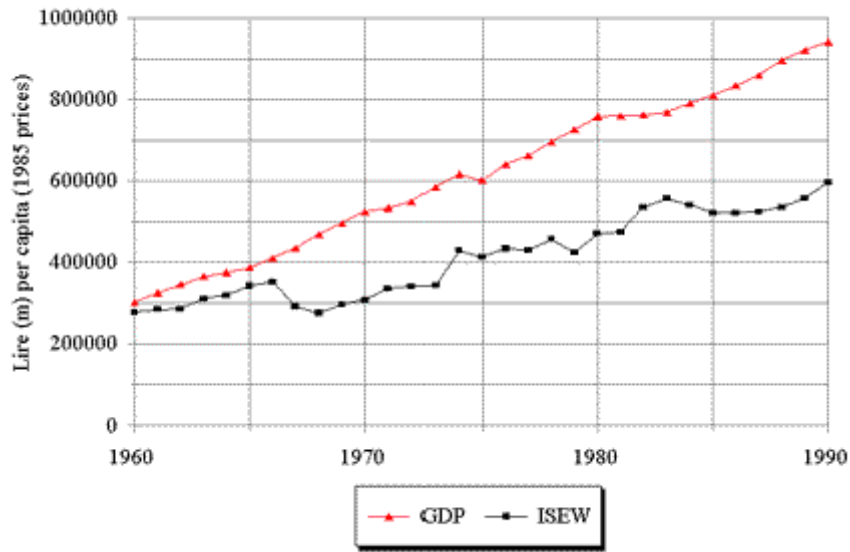
Chilean ISEW



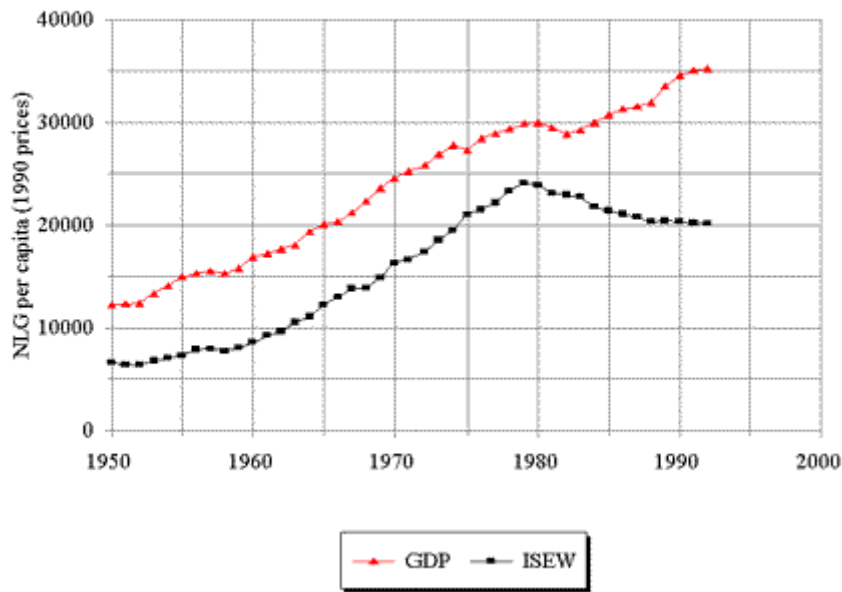
German ISEW



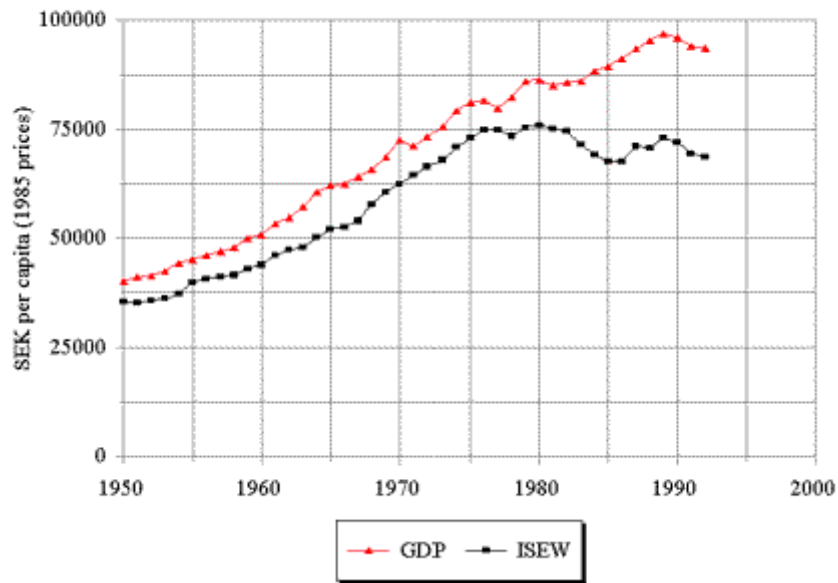
Italian ISEW



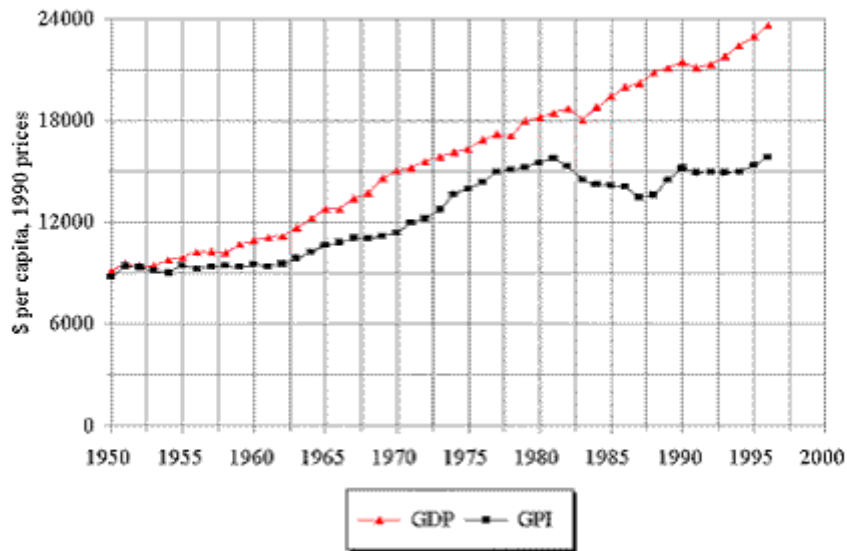
Netherlands ISEW



Swedish ISEW



Australian Genuine Progress Indicator



USA Genuine Progress Indicator

