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Problems with Economic Growth: Towards a Better Measure of Progress?¹

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Introduction

The term “economic growth” has been given remarkable attention and status by economists and governments throughout the world over many years. Commonly used to mean the level or growth of national income, economic growth has long been regarded as a key objective for any economy or society and it has survived as one indicator of progress up to the present day. However, other indicators have been identified over the centuries and the limitations of economic growth as an indicator have long been recognized. As far back as Plato, the idea of an “improvement in the human condition” was being espoused. In the sixteenth century “human happiness” was seen by Bacon to be more important than knowledge. Various thinkers in the eighteenth and nineteenth centuries searched for what they called “laws of progress” and stressed the concept of “social well-being”. References to progress also were evident in all the major religions, including the 1967 Papal Encyclical, Populorum Progressio. Over the last few decades, a whole range of indicators have been proposed in relation to progress, quality of life, well-being, happiness, human development and sustainability (See, for example, United Nations, 1987; Estes, 1988; Scott, Nolan and Fahey, 1996; Hardi and Barg, 1997; NESC, 2002). It may be noted too that sixty years ago, the General Assembly of the United Nations adopted and proclaimed the Universal Declaration of Human Rights. The Declaration and subsequent UN Conventions made it clear that everyone is entitled to a wide range of civil, political, economic, social and cultural rights.

¹ This paper draws on some of the research conducted for Human Rights, Economics & the Budget to be published by TASC & Amnesty International on November 27th 2009
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In this paper, two traditional measures of economic growth are first examined. These are Gross Domestic Product (GDP) and Gross National Product (GNP). Still widely used, these concepts are nevertheless subject to various criticisms which are summarised. Later papers deal with a number of specific alternative measures including well-being and happiness. As a background to these other contributions I therefore focus instead on the broader concept of “development” which reflects the real needs of any population and certainly offers a better measure of progress than traditional economic growth concepts.

**Traditional Indicators: GDP and GNP**

Economists and governments around the world have placed considerable emphasis on two measures of economic growth – Gross National Product (GNP) and Gross Domestic Product (GDP). Gross National Product is the value of all final goods and services (or income) owned by (accruing to) the residents of a country in a year. Gross Domestic Product is the value of all final goods and services (or income) produced domestically in an economy in a year regardless of the nationality of the owners of the factors of production. One key difference between the two concepts therefore is the value of production by multinational companies which is repatriated abroad – and in view of Ireland’s dependence on multinationals, this has been a significant element in this country for many years. For this reason, it is generally accepted that the concept of GNP is a more accurate measure of the income accruing to a country.

While these measures are commonly used as measures of economic growth and the “standard of living”, there are many problems associated with their use either in a particular year or over time. A brief summary of these problems is provided here.

First, these concepts emphasise the market value of production but fail to take account of a whole range of goods and services not exchanged in the market. This is especially problematic in developing countries where a significant proportion of goods and services are produced in households
or on farms for consumption rather than for sale. No value is placed on many forms of work such as unpaid work in subsistence agriculture throughout much of the developing world and work, including the caring for children, the sick, the elderly and those with disabilities in the home. Similar goods and services in relatively developed countries are also excluded. In these respects, the major and invaluable contributions of women in particular are significantly under-valued. (Elson, 2002; Cypher and Dietz, 2004).

Second, economic growth is poorly related to a range of key economic and social objectives in any society. In particular, we find that over long periods of time high rates of economic growth have been associated with quite modest rates of employment growth, largely because of significant technical change which reduces the demand for labour. This is particularly obvious in agriculture and industry, but is also evident in relation to many services. For many years, studies have assumed that economic growth was the key variable in creating employment. However, it could as easily be concluded that the relationship works the other way – that employment generates economic growth. In any case, the creation of viable employment must surely take priority over the objective of economic growth. Much more than a means of acquiring a disposable income, work can offer a meaningful and personally satisfying structure and a source of self esteem – indeed a human right. It also provides added opportunities for social interaction and self-fulfillment. On the other hand, the absence of work can have a debilitating effect on individuals, not just financially but also socially and psychologically. If a particular region or community is affected by particularly low levels of paid employment, an increasingly disenfranchised, alienated residual population will emerge with negative implications for the community at large.

Third, such things as military hardware and lethal weapons designed to cause damage and to kill are given the same status in the valuation of GNP as other more benign goods such as medicines or food. The production of lethal weapons represents an enormous proportion of expenditure in some countries and despite the obvious dangers they
increase GNP. It is difficult to accept that these contribute to progress, well-being, happiness or human development in any real sense. It must also be recognized that the earmarking of expenditure on lethal weapons by any country means that fewer resources are available for more fundamental requirements such as food, education, health and housing.

Fourth, the total GNP or GDP for a country or the average income per capita gives no indication of the distribution of income. Such an average is derived from a wide range of income levels. Thus, small proportions of the population can, and generally do, procure high proportions of overall income, while a large proportion remain on very low incomes. In Ireland, for example, the poorest 20 per cent of the population gained virtually the same small proportion (5.1 per cent) of the total income in 2004 as it did in 1973 (5 per cent). On the other hand, the richest 20 per cent gained a significant 43.6 per cent of the income in 2004 – an improvement on their 42.6 per cent in 1973 (Collins and Kavanagh, 2006). Per capita GNP fails to capture this reality. It fails also to focus on those living on the lowest incomes of all, those in poverty or at risk of poverty. The annual EU-SILC data shows that 16.5 per cent of households in Ireland were at risk of poverty in 2007 while almost 20 per cent of children were at risk despite a 6 per cent rate of GDP growth in that year. Although still insufficient indicators on their own of progress, the distribution of income and the extent of poverty among the various groups within a country are arguably far better indicators of well-being or otherwise than an average measure such as GNP or GDP. There is a single income figure, however, which deserves serious attention - that is the concept of “basic income”. This is, in effect, a minimum income guarantee above the poverty line for every individual. This would avoid the negative effects inherent in the current social welfare system where seeking employment is often discouraged by poverty or unemployment traps (see, for example, Clark and Healy, 1997; Clark, 2002; CORI Justice, 2008).

Fifth, GNP or GDP offer crude measures of income, but do not value many existing possessions and the benefit derived from them. The ownership of land or other assets (key elements of “wealth”), for instance, are not included in the GDP or GNP measures. Access to a
whole range of such resources and facilities ultimately contribute to the well-being of any individual. Failure to include such resources limits the usefulness of GNP and GDP.

Finally, GNP and GDP include the suggested benefits in terms of income derived from industrial and technical production but fail to take account of many costs associated with such production. Examples of such costs include the depletion of natural resources (e.g. fossil fuels and forests), air and water pollution, soil erosion, radiation, the destruction of some species, traffic congestion, family breakdown and increases in crime. GNP and GDP make no proper allowance for the long-term effects of these damaging activities. On the contrary, the costs of dealing with environmental degradation - including clean-up operations, enforcing regulations on industries, or educating the public are invariably regarded as positive outcomes increasing GNP and GDP. The current extraction of non-renewable oil and gas from the ground increases the growth rate of GNP today, but reduces the possibilities for future generations and should therefore be counted as a cost rather than simply a benefit in the national accounts. Furthermore, the massive use of fossil fuels by industry and transport is responsible for the significant emission of greenhouse gases with adverse effects of global warming, rising sea levels and flooding (Haque, 2004).

There is also a problem relating even to renewable natural resources such as forests and fisheries. Continuous exploitation of these has been so rapid that the rate of depletion is exceeding regeneration. In effect, therefore, these renewable resources could become non-renewable. So we achieve economic growth in the short term but ignore the costs in terms of depleted resources unavailable to future generations. It can be argued therefore that, far from achieving economic growth, we have been achieving uneconomic growth. (For a sample of warnings see, for example, Meadows et al. 1972; Douthwaite, 1992, Daly, 1999).

The unwarranted escalation in house prices in Ireland over the period 1995 to 2007 added billions to GNP. This represented a significant windfall gain for property developers and speculators and even for the
government in extra tax revenue. (Drudy and Punch, 2005; Drudy, 2006). However, on the debit side, several hundred thousand households now find themselves in deep debt and in negative equity due to the purchase of over-priced homes. Is this progress? In short, crude income concepts like GNP or GDP accept any form of production or consumption as intrinsically positive and good. This casts serious doubt on their usefulness. The European Commission recognized this many years ago (European Commission, 1993); yet GDP continues to be widely used in European Union statistics and reports.

The above list is not exhaustive but it illustrates the difficulty of using GNP or GDP as objective measures of progress, well-being, standard of living or development. Even as a crude measure of market activity, concerning only the part of the economy that involves money changing hands, it is less than satisfactory as an indicator. It cannot reflect the complexities involved in development because it reveals little or nothing about a range of social, cultural, environmental as well as strictly economic factors that can enhance or debilitate the quality of life. Higher levels of production, consumption, or investment do not necessarily indicate higher levels of development and well-being across the population. As the European Commission put it as far back as 1993:

*It is open to question whether an increasing part of the measured economic growth figures does not deal with illusionary instead of real economic progress and whether many traditional economic concepts (e.g. GDP as traditionally conceived) may be losing their relevance for future policy design (European Commission, 1993, p. 146)*

Similarly, the OECD concluded that:

*Survey-based data on happiness and life satisfaction across OECD countries are only weakly related to levels of GDP per capita (OECD, 2006, p.129)*
Towards Human Development and Human Rights

Many economists, sociologists and other social scientists have been arguing for years that the concept of economic growth must be replaced by other measures, taking into account not just economic, but social, environmental, equality and social justice concerns (See, for example, NESC, 2002, 2005, 2009; Healy and Reynolds, 2006; NESF, 2008; CORI Justice, 2008; Baker, Lynch, Cantillon and Walsh, 2009). Much attention has been paid in both developing and relatively developed countries to the concept of “development” and in particular to human development, since development must be primarily about people rather than things. As Dudley Seers put it four decades ago:

What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result “development” even if per capita income doubled (Seers, 1969, p.3)

The fundamental question raised by Seers and others was whether a sustained increase in economic growth or per capita incomes will result in a reduction in unemployment or other measures of deprivation and in an improvement in the “quality of life” of the population. In adopting the 1986 Declaration on the Right to Development. The UN stated:

Development is a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom.
In 1987, the UN World Commission on the Environment and Development chaired by the Norwegian Prime Minister, Gro Harlem Brundtland, produced *Our Common Future* where it espoused the principle of “sustainable development” i.e. “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987).

The UN in its first *Human Development Report* in 1990 introduced a composite measure of development called the Human Development Index (HDI). This single statistic combined three goals of development: life expectancy at birth, educational attainment and income adjusted for different purchasing power in different countries. While not covering all the requirements for development, the HDI is widely considered to be a better indicator than income alone. Several other indices were developed by the UN and others over the years. These include the Gender–related Development Index (GDI) which measures inequality in achievement between males and females; the Gender–Empowerment Measure (GEM) which assesses the progress of women in economic and political activity and the Human Poverty Index (HPI) which focuses on deprivation in relation to life expectancy, education and standard of living.

By the early 1990s, the World Bank, which had previously emphasized the importance of economic growth, supported a more comprehensive definition of development in its 1991 *World Development Report*:

> The challenge of development is to improve the quality of life. A better quality of life generally calls for higher incomes - but it involves much more. It encompasses as ends in themselves better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedom, and a richer cultural life (World Bank, 1991).

In the light of the foregoing, it would be absurd to argue that development or progress is taking place in any country if a significant proportion of the population is unable to improve the quality of their lives, if people are powerless to escape from hunger and poverty, if they
have inadequate housing, education and employment opportunities and if serious inequalities persist. Therefore, development must be a multidimensional process, involving not just the achievement of economic growth but major changes in social structures, popular attitudes and national institutions, the reduction of inequalities and the eradication of poverty. It must cater for the basic needs and desires of the full range of individuals and social groups and move away from a condition of life widely perceived to be unsatisfactory towards a situation or condition of life regarded as materially and spiritually better (Todaro and Smith, 2009; Wilkinson and Pickett, 2009).

In a similar vein, the Nobel Prize winner, Professor Amartya Sen stressed the importance of enhancing “capabilities”. These and a range of “freedoms” were prerequisites for development. “Development can be seen as a process of expanding the real freedoms that people enjoy” and “development has to be concerned with enhancing the lives we lead” (Sen, 1999, pp.3-14). Freedoms include the availability of adequate food, nutrition, water and sanitation, clothing, shelter, health care, education and the enjoyment of equality and peace. Without these it would be very difficult to make a contribution to development or economic growth.

Education and health are two of the most important “means” of achieving either economic growth or the broader development as defined above. They must be regarded as key “economic” as well as “social” variables in the growth and development process. Education is essential not only to secure higher incomes, but to “empower” and provide “capabilities” to those able to avail of them by increasing knowledge and skills, broadening horizons and perspectives and improving the quality of life. (Stodden and Dowrick, 1999; Pradhan, 2002; Psacharopolous and Patrinos, 2004; Gros, 2006).

Similarly, good health has obvious economic implications since it is a pre-requisite for general well-being, for full participation in society and for securing productive employment. Good health boosts labour productivity and income, and so reduces poverty and therefore contributes to growth and development. Therefore, education and health
are both critical for achieving the human capabilities required for growth and development as outlined above. The links between education and health are also obvious. Improved education is associated with lower levels of child mortality and better nutrition and health (Education for All, 2009). Better education will invariably provide information, training and skills which lead to improvements in health, while good health is a prerequisite for availing of, remaining longer in and making the most productive use of education. The inter-linkages between key variables like nutrition, health, education and housing cannot be over-estimated (Todaro and Smith, 2009). These variables, in the past often regarded as non-economic and secondary considerations, are in fact key economic influences on whether development and progress takes place or not.

As shown above, health and education are among the key elements which contribute to development and progress. These and other “freedoms” provide the “capabilities” essential for human progress. To aspire to and aim for these freedoms for all is indeed admirable, but that is not enough. Everyone must be enabled to achieve these freedoms as a right. In fact, there is a remarkable coincidence between the key variables essential for development and progress and many others set out as “rights” in the 1948 Universal Declaration of Human Rights as well as the 1966 International Covenant on Economic, Social and Cultural Rights. Indeed, a human rights based approach is the only approach which can result in development and progress for all (Sweeney, Drudy, O’Connor and Crowley, 2009)

**Conclusion**

The concept of economic growth as measured by GNP and GDP is so problematic that it must be discarded or at least treated with great caution. It provides an inadequate indicator of human development or progress for people in any real sense. In the future, we must turn instead to this more appropriate goal of human development by using a much more comprehensive set of variables which place emphasis on sustainability, freedoms, capabilities and empowerment within a
human rights based framework. Indeed, we need to turn away for good from the obsession with economic growth and the philosophy of the market to focus instead on a philosophy and a set of values and ethics which facilitates and nurtures human development. To achieve this, new more appropriate national and international structures must also be put in place.
References

Clark, C.M. and Healy, J. (1997), Pathways to a Basic Income, CORI Justice, Dublin


**Beyond GDP:**

*What is prosperity and how should it be measured?*


