

Economic Growth and Well-being - Statistical Perspective

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There is a clear case for complementing GDP with statistics covering the other economic, social and environmental issues, on which people's well-being critically depends.

European Commission [1]

An access to the well developed cross-cutting, high quality, shared information is one of the basic needs of democracy to be effective. It is because the more people are informed about economic and social situation and trends in their countries, the more chance for them to require from politicians to make better policy toward economic growth and development. Another problem is a public trust in government. If people don't believe the figures their statistical bodies produce, they are likely to lose trust in government as a whole which can lead to a negative impact on the democratic process.

So the problem is how to avoid a gap between the official statistics on economic performance, and a perception of people their own living conditions. Such a gap during a long period was already evident for many countries in all over the world, but it is especially true for the developing countries. The possible reasons of the gap between what official statistics say and people's perception are: a) misuse of certain statistics; b) low quality of official statistics.

1. Misuse of certain statistics

The reason of this is a use of statistical data produced for one purpose for another one. Probably the best example is Gross Domestic Product (GDP). GDP, tells us the nation's total income and the total expenditure on its output of goods and services and measures mainly market production. GDP by origin is not well- suited as a metric of well-being, but it has been increasingly considered for this purpose. GDP is failed to capture such a range of factors as the unpaid work of households, the distribution of income among the population groups and the depletion of resources and it created a problem of using GDP (or GDP per capita) as an indicator of well-being. For example, if inequality in distribution of income among the population groups increases enough relative to the increase in average GDP per capita, then most people can be worse off even though average income is increasing. Another example, if a number of cars drastically increases, then GDP goes up, but it also leads to the traffic jams and increasing of air pollution. From these perspectives such an increase of GDP does not improve the quality of life at all.

That is why original architects of the System of National Accounts (SNA) had a clear idea that well-being could not be measured by national income alone.

2. Low quality of official statistics

This problem mostly related to the developing countries. Because of the difficulties in their economies the developing countries have a problem with making significant investments to develop statistical systems which are able to produce using internationally recognized methodologies a whole set of necessary indicators of the economic and social progress.

The quality of official statistics could be low also because existing methodologies are imperfect.

For example, let us consider how well statisticians can measure non-observed economy. As it is known an economy of any country consist of two parts, observed and non-observed. And share of non-observed (shadow) economy in the GDP could be significant especially in the developing countries (up to 50% and higher). Also it is well known that in developing countries many city- dwellers and main part of internal migrants from rural areas can survive in the cities thanks to their employment in the non-observed part of economy. So it is not possible to ignore a measure of non-observed economy in terms of both: economic growth and development (well-being). It has to be separately estimated (measured) and then included into the country's GDP. There are several methodologies for measurement of non-observed economy based on different approaches: conducting surveys of households on production of goods and services in the non-observed economy, labor force surveys, analysis of cash operations, analysis of electricity supply, and so on. But the problem is that all these existing methodologies for measurement of non-observed economy are not as good as for observed economy and should be improved significantly. The same kind of critics we can also apply to the statistical data on services, it should be improved as well.

3. What should be done?

Statistical indicators for economic performance, although they are well developed, also needed to be improved in terms of methodology in order to provide good monitoring of the evolution of modern economies toward a complex one [2]. An evolution toward a complex economy means the growing share of services and the production of goods whose quality is complex.

“Going beyond GDP” strategy is very promising for better to measure societal well-being, quality of life and progress. “Going beyond GDP” does not mean dismissing GDP and production measures. It means complementing GDP with statistics on which people's well-being critically depends.

Well-being is multidimensional and includes except economic also social, environmental and governance areas and as it mentioned in [2] “dimensions should be considered simultaneously:

1. Material living standards (income, consumption and wealth);
2. Health;
3. Education;
4. Personal activities including work;
5. Political voice and governance;
6. Social connections and relationships;
7. Environment (present and future conditions);
8. Insecurity, of an economic as well as a physical nature”.

So real implementation of the “Going beyond GDP” strategy is huge challenge for statisticians and probably it requires shift emphasis from measuring economic production to measuring people's well-being.

Ideally national accounts of Well-being should be developed for the successful monitoring of social progress as it is already done for monitoring of economic progress [3]. 48 indicators of the Millennium Development Goals (MDG) in combination with the indicators of SNA could become a good basis for construction of the national accounts of Well-being.

How developing countries can improve their statistical products? International organizations and well-developed countries could play a key role. Strengthening the statistical capacities should become an important part of their program on support of the developing countries.

Reference

1. GDP and beyond: Measuring progress in a changing world', Communication from the Commission to the Council and the European Parliament, Brussels, 20th August 2009, COM (2009) 433 final.
2. Report by the Commission on the Measurement of Economic Performance and Social Progress, www.stiglitz-sen-fitoussi.fr
3. National Accounts of Well-being: bringing real wealth onto the balance sheet www.nationalaccountsofwellbeing.org