

# 'GDP has critical limitations'

Trust the French to stir up a debate on GDP...and the well-being of being. A commission (with five Nobel laureates in Economics) appointed by France's Nicolas Sarkozy to look at better ways to measure economic output recently submitted a 292-page report. **Lola Nayar** quizzed **Bina Agarwal**, director of the Delhi-based Institute of Economic Growth and a member of the commission, about measuring happiness:

## What's it all about?

The report represents the most comprehensive effort to-date to examine the limits of GDP for assessing a country's economic performance and social progress. It identifies measurement problems, suggests GDP adjustments and spells out the wide range of additional information needed for arriving at more accurate assessments of well-being.

## How relevant is it for India?

It's extremely relevant. For instance, two critical limitations of GDP are the undercounting of non-market work and the non-counting of the environmental costs of growth. India has a vast informal sector and many activities are not included in GDP, such as a huge part of the unpaid work women do in rural areas. By not counting this, we substantially underestimate our GDP. At the same time, we overestimate GDP by not taking into account the degradation of our natural assets such as forests, water resources. Although they can't all be given a monetary value, deducting at least some costs will recognise the environmental damage caused by growth processes.

Similarly, it is important to know not only how well people are doing in terms of health, education or finding decent



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work, but also how well they themselves feel they are doing in terms of life-satisfaction. Hence, both objective and subjective indicators matter. Also, the quality of our life depends on whether we have civil rights and freedoms, political voice, good social connections, whether our institutions are accountable, whether or not we live in localities that are clean, green and relatively crime-free. Most importantly, the report pays particular attention to inequalities—this is of central relevance for India where along with high growth of GDP per capita we have increasing inequality and

persisting poverty.

## Won't indicators like human development index suffice?

The HDI's philosophic underpinnings lie in Amartya Sen's capability approach. At the same time, the breadth of Sen's approach cannot be captured simply by the three elements that constitute the HDI: GDP per capita, life expectancy and education. Also the HDI gives country-level averages, which cloak intra-country inequalities. The new report, by contrast, suggests a very wide range of measures. Indeed, it recommends that rather than attempting summary indices, data should be collected and made available in all its diversity, for people to aggregate according to their perspectives.

## How can we assimilate so many elements?

We'll need a vast body of information. On some aspects, we may already have start-up data. Like we have good time use data for several states. This tells us how much time women and men spend in different activities, including non-market work. We also have data on the depletion of some natural resources. So we can start developing satellite accounts to adjust GDP, as is done in some western countries.

But for many dimensions, we will need new surveys, such as for better measuring improvements in health and education, for assessing life satisfaction, the sense of physical and economic security, or whether people can exercise their legal rights in practice. Existing information on political freedoms or rule of law, for example, is mainly based on the opinions of "experts". But we need to know directly from the people what their experiences are. I am sure we could take up this challenge, given the will. ■