Barriers and Opportunities for Alternative Measures of Economic Welfare

While alternative measures for economic welfare, such as the Index of Sustainable Economic Welfare (ISEW – Daly and Cobb, 1989), the Genuine Progress Indicator (GPI – Cobb et al., 1995) and the National Welfare Index (NWI – Diefenbacher and Zieschank, 2010), have been around for 25 years, their policy impact is rather limited. This paper explores a number of barriers that these alternative measures face by interviewing (potential) users of these measures in both Belgium and Germany – two countries in which respectively the ISEW and NWI have recently been picked up by policy-makers (Bleys, 2013; Diefenbacher et al, 2013).

The barriers that were identified in the interviews are grouped into 3 categories (Pregernig, 2000): context factors, indicator factors and user factors. Context factors are embedded in the policy context and agendas that shape the environment in which an indicator percolates, indicator factors depend on specific characteristics of the indicators, while user factors relate to the level of experience and expertise of the users of indicators and the administrative and institutional culture and uses in which the user operates.

We identified 3 context barriers. First, the current economic climate – the aftermath of the financial and economic crisis – presents itself as both and opportunity (quest for alternative economic storylines) and a barrier (clinging on to traditional economic views and instruments; reduced research budgets). Next, we found that despite this challenging context there are signs that public support for going Beyond GDP remains strong. Finally, this strong support has resulted in an uptake, at least at the regional level, of the use of alternative measures mostly in reaction to the different critiques of the official GDP figures and particularly the exclusion of environmental factors from the traditional economic data.

The first important 'indicator' barrier identified by a number of interviewees is the lack of comparability between different studies on alternative measures of economic welfare. Comparability is particularly important for Beyond GDP indicators in an increasingly globalised world, since it not only enables benchmarking of progress against other cities, regions, or countries but also enhances the credibility and legitimacy of indicators. Next, the timeliness of the alternative indicators was often seen as a barrier to their wider use. In order to have greater policy relevance the current time lag of 1.5-2 years would have to be reduced. Finally, a number of methodological issues were raised in our interviews: respondents questioned the choice of components, the quality of the data that go into the compilation efforts and a number of specific valuation methods, while they also pointed to a number of problems when applying the alternative measures of economic welfare to lower policy levels (regions or cities). These methodological issues are generally in line with the ones that emerged over time in literature (e.g. Neumayer, 1999 and 2000; Harris, 2007, Brennan, 2013).

The main 'user' barrier alternative measures of economic welfare that emerged in our research is the opposition that these indicators face when it comes to (a) the aggregation involved in measuring economic welfare and (b) the monetary valuation methods used in their methodologies. From the interviews it became clear that for some actors there are 'taboo' methodologies or valuation techniques, which, if used in the production of an alternative indicator, can act as a barrier to its acceptance and diffusion. Next, the holistic nature of the alternative measures of economic welfare might provide an additional barrier in that it requires the expertise of a broad spectrum of disciplines and competences both in its construction process and effective use. A third user barrier that we identified is the incompatibilities of the alternative measures with users' demand (e.g. comparable data or linkages to macroeconomic models and instruments in order to carry out ex ante policy evaluations).

Drawing on the different barriers that were reported, 4 opportunities are identified in order to increase the policy value of the alternative measures of economic welfare. The first opportunity is related to the indicator factors identified above: the methodological framework of the alternative measures needs to be harmonized and updated in order to have comparable results that use up-to-date estimates and valuation methods. Next, if a larger number of the welfare-related items that feed into alternative measures of economic welfare are included in macroeconomic models, one can attempt to make economic welfare forecasts in a similar fashion as GDP forecasts are made today. This would allow policymakers to evaluate certain decisions not only in the light of their impact on economic activities (GDP), yet also to have a more comprehensive picture as to whether the proposed decisions have a positive or negative impact on economic welfare. Third, the communication on the measures needs to be improved by focusing on policy applications and showing how the ISEW can affect and relate to different audiences. Finally, there is a need for stronger indicator and researcher entrepreneurship. Researchers working on these alternative indicators should not stand at the sidelines of the "beyond GDP" debate, yet they should actively try to weight on it through a stronger social engagement and participation.

The opportunities that were identified in this paper should be regarded as recommendations to the research community that works on alternative measures of economic welfare. If this research area is to increase its relevancy to policy-makers, the scientists working on it should move beyond individual compilation efforts that make use of diverging methodologies and look for ways to improve communication on the alternative measures and to more clearly elicit their benefits to policy-makers. This could be done by actively engaging in policy discussions and evaluations while at the same time focusing on harmonizing methodologies. We believe that a more comprehensive view on the economy and its social and environmental impacts is required when developing a "beyond GDP" narrative in developed countries and that alternative measures of economic welfare are key in this process.

Note to reviewers:
This paper is the centerpiece of the special session on "Beyond GDP: increasing the policy value of alternative measures of economic welfare" as it outlines a policy and research agenda for the field.

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