Engaging Decision-Makers in Moving Beyond GDP and Toward Wealth

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About This Briefing Note

This briefing note introduces the International Institute for Sustainable Development’s (IISD’s) work to support the adoption of expanded wealth measurement in countries around the world. With funding from the International Development Research Centre (IDRC), IISD is examining the potential for “comprehensive” or “inclusive” wealth measures to guide policy decision making to increase human well-being. We find that such measures offer important improvements on traditional measures of progress like GDP. This work is based on collaborations with international and country-level experts in Ethiopia, Trinidad and Tobago, and Indonesia. The work also draws on IISD’s major reports on wealth in Canada (Smith et al., 2016, 2018).

The purpose of the note is to outline how decision-makers can be brought into the discussion around comprehensive/inclusive wealth (C/IW). The goal of this discussion is to encourage countries to move beyond GDP and begin using C/IW as a means of assessing national progress. The note first lays out the conceptual argument for moving beyond GDP and adopting a C/IW index (Section 1). We then provide practical steps for encouraging decision-makers to move toward measuring C/IW (Section 2).

Why Move Beyond GDP?

GDP focuses excessively on short-term growth in the market economy and ignores its costs in terms of environmental degradation, loss of trust, growing inequality, and mounting debt. It also ignores the many well-being benefits that arise outside the market, including those related to volunteering, unpaid housework, enjoyment of nature, and social connections. Decision making that focuses on GDP is therefore biased toward the short term, overly concerned about what
happens to the market economy and not concerned enough about the consequences of economic growth for other determinants of well-being.

Until countries move beyond GDP and its short-term market focus, no serious answer to the question “Is our level of well-being sustainable?” will be possible. Only by comprehensively/inclusively measuring national wealth (the sum of human, natural, social, produced, and financial capital) can countries determine the sustainability of their development.

A transition from GDP to comprehensive/inclusive wealth (C/IW) measures will require capacity building among decision-makers to help them understand the differences and uses of the two indices. In addition, national statistical offices will need to begin measuring wealth in all its dimensions. Making these measures available alongside traditional indicators would lead to better, more sustainable outcomes. Decision-makers will be better able to balance short-term imperatives with the long-term environmental, social, and economic determinants of well-being.

GDP and Its Shortcomings

GDP is one of the most frequently cited and influential indicators of our time. For nearly 75 years, politicians, investors, business people, researchers, journalists, and the public have eagerly anticipated each GDP release, using the numbers to judge how well the economy—and the nation—is doing. Though not originally conceived as a measure of well-being, GDP has come to be synonymous with that idea. If GDP is growing, a country is said to be moving in the right direction. If GDP growth is weak (or, worse, negative) things are said to be going poorly and intervention to change course will be called for.

Other things being equal, it is reasonable to take growing GDP as a sign that well-being is improving; at least, that the economic dimension of well-being is improving at the current moment. For most people, additional income today will enhance their individual well-being today. To the extent that additional income does not come with hidden costs that undermine personal or collective well-being in the long run, GDP is appropriate as one, limited measure of national progress.

Other things are, however, not equal, and there are many reasons why increasing GDP is not correlated with increased well-being. For example, GDP does not account for any of the following:

- Environmental degradation that worsens as the economy grows
- Destruction of property and infrastructure due to increasingly extreme weather
- Insufficient investment in education and training
- Loss of security requiring increased spending on crime protection

1 The terms “inclusive wealth” and “comprehensive wealth” are both in common use to describe expanded measures of wealth that consider human, natural, social, produced, and financial assets. We refer to “comprehensive/inclusive wealth” simply to be clear that the discussion here relates to expanded wealth measures in general and not to one or the other of these approaches.
There are also many examples where well-being and GDP clearly move in opposite directions (Box 1). For these and other reasons, concern is growing around the use of GDP as a guide to decision making. GDP leads decision-makers to favour policies with narrow economic benefits for those alive today, even if those policies undermine well-being in the long run.

**Box 1. Divergence Between GDP and Well-Being: Examples from around the world**

Vietnam’s GDP is just 1% that of the United States’, yet the United States had recorded more than 32 times the number of deaths from COVID-19 by November 2021 as Vietnam.

The Black Saturday bushfires in Victoria, Australia, in February 2009 resulted in 173 fatalities, 414 injuries, 450,000 hectares burned and 3,500 buildings destroyed. At the same time, Australian GDP went up by USD 4 billion (Stanley, 2020).

Ethiopia’s GDP growth reached 13.5% in 2004 and has remained above 5% since. However, land degradation has long been a critical threat in the country. More than 85% of the land has been degraded to various degrees (Gebreselassie et al., 2016). Major causes of land degradation in Ethiopia are rapid population increase, severe soil loss, deforestation, low vegetative cover, and unbalanced crop and livestock production (Taddese, 2001). None of these factors are captured by the country’s robust GDP growth.

In the first 3 years of the recovery from the 2008 global financial crisis, about 91% of the gains went to the top 1% of economies (Stiglitz, 2019).

Many sub-Saharan African countries have been proud of near-double digit GDP growth for years. But the current pandemic is a major threat to governments’ race toward rapid expansion of GDP, exposing countries’ weaknesses in areas like social support capacity, health, and information and communications technology infrastructure. Today, there is a growing call to change the expansion narrative in sub-Saharan Africa (Brookings Institution, 2021a).

The United Kingdom is the fifth largest economy in the world based on GDP (International Monetary Fund [IMF], 2021). Despite having less than 1% of the world’s population, UK consumption is responsible for 9% of the global cocoa land-use footprint, 5% of the global palm oil footprint, and 5% of the global pulp and paper footprint. Between 63% and 89% of the UK’s land-use footprint is in countries that are at high or very high risk of driving continued deforestation and/or human rights abuses (World Wildlife Fund & Royal Society for the Protection of Birds, 2020, cited in Dasgupta Review, 2021).
Why Choose Comprehensive/Inclusive Wealth to Move Beyond GDP?

The criticisms of GDP for failing to capture the costs of economic growth are long-standing and well documented. Some researchers argue that GDP simply needs to be modified to address its shortcomings; for example, by making adjustments for loss of environmental quality. Reforming GDP may be a part of the solution—but it is not enough. No matter how it is measured, GDP will always remain focused on the short term and, therefore, continue to be insufficient as the sole measure of national progress. The determinants of future well-being will always fall outside GDP’s scope.

Despite its flaws, governments have long sought to foster GDP growth. This is changing, however. Leaders increasingly recognize the need to ensure well-being both today and in the long run (Box 2). Well-being in the long run is not determined by a country’s GDP but by its wealth. More specifically, well-being rests upon stocks of human, natural, social, produced, and financial capital. This suite of assets is referred to as the C/IW portfolio. The assets that make up this portfolio—such as healthy ecosystems, strong communities, educated citizens, efficient buildings, and sound financial holdings—are what countries need to generate well-being, both today and in the future. A robust C/IW portfolio is the basis for clean air and water, social trust, a productive workforce, and a vibrant economy, among many other elements of well-being. Because assets are long-lived, a well-managed wealth portfolio will generate well-being not just today but in the future as well.

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Box 2. What Global Leaders Are Saying About Measuring Wealth

Leaders are increasingly arguing that GDP fails to capture much of what matters, especially in the long run. At their 2018 meeting in Canada, for instance, G7 heads recognized that GDP alone is “insufficient for measuring success” and acknowledged “the importance of monitoring other societal and economic indicators that measure prosperity and well-being” (G7, 2018, p. 2). In the same vein, the UN Secretary-General encourages countries to move beyond GDP, writing in his 2021 agenda for sustainable development that “we know that GDP fails to account for human well-being, planetary sustainability and non-market services and care, or to consider the distributional dimensions of economic activity... It is time to collectively commit to complementary measurements” (Our Common Agenda, p. 34). Among the handful of additional measures the Secretary-General urges nations to adopt is C/IW, building upon the global wealth studies published by UNEP (Managi & Kumar, 2018; United Nations University–International Human Dimensions Programme on Global Environmental Change & United Nations Environment Programme, 2012, 2014).

Speaking at the launch of the World Bank’s latest global wealth study (World Bank, 2021), the Global Director for Environment and the Blue Economy at the World Bank said recently that “we think [it] is a big deal to go beyond GDP and to develop [comprehensive] wealth accounting...[because] it helps countries see [the] asset base...[that] often is overlooked

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2 For an excellent, readable review of GDP’s shortcomings as a measure of progress, see Pilling (2018).
in standard macroeconomic indicators like GDP. GDP growth that’s at the expense of your assets...[is] unsustainable” (Brookings Institution, 2021b). For their part, both the Organisation for Economic Co-operation and Development (n.d.) and the World Economic Forum also encourage countries to measure comprehensive wealth as the basis for understanding well-being (Schwab, 2019).

As Cambridge Professor Sir Partha Dasgupta put it recently in his extensive review of The Economics of Biodiversity (Dasgupta, 2021), GDP may be “indispensable in short-run macroeconomic analysis and management [but] it is wholly unsuitable for...identifying sustainable development” (emphasis added). Rather, “in order to judge whether the path of economic development [nations] choose to follow is sustainable, [they] need to adopt a system of economic accounts that records an inclusive measure of their wealth.” Thus, decision-makers need to begin focusing equally (if not more) on the assets of the C/IW portfolio and it is these that Dasgupta and other experts³ argue governments should urgently begin measuring.

Similar arguments have been made in the case of the COVID-19 pandemic by researchers at Cambridge University (Agarwala et al., 2020). Without adequate wealth, they note in their report (Bennett Institute for Public Policy, 2020) and video⁴, there is no resilience in the face of calamities, whether fast-moving like COVID or slow-moving like climate change. The need to recover from the pandemic and prepare for climate change with resilience in mind means there is no longer any excuse (if there ever was) for decision-makers not to take comprehensive wealth into account.

Most people will understand the importance of C/IW intuitively, even if they are not familiar with it as a formal concept. In the long run, personal well-being relies on one’s capacity to earn tomorrow and beyond and not just on how much money one earns today. In addition to money, one’s “earnings” can be more broadly defined to include interactions with family and neighbours, enjoying the benefits of nature, and feeling safe in one’s community. All these should be accounted for, though GDP accounts for none. Even though they might not use the term, people understand that it is their assets that determine their “earning” potential, both monetary and non-monetary. These include both personal assets (a home and property, money in the bank, skills, knowledge and experience, and relations with family, friends, and society at large) as well as assets owned collectively with other citizens, such as healthy ecosystems and efficient public infrastructure. These assets make up each person’s CI/W portfolio—and determine their prospects for the future. People understand these assets must be maintained over time if their well-being is to be sustained.


⁴ Measuring Wealth to Promote Sustainable Development | International Institute for Sustainable Development (iisd.org)
The same is true for countries—national C/IW portfolios determine the prospects for the long-term well-being of countries. The national C/IW portfolio is made up of the sum of the individual C/IW portfolios of its citizens plus the public assets owned in common, such as ecosystems and natural resources, roads and other infrastructure, and institutions. As with individuals, the national C/IW portfolio must be stable or growing over time for national well-being to be sustainable. If it is not, the country is eroding its productive base and living off its inheritance rather than building for the future (Box 3). More formally, the following general statement about sustainability can be made: “Sustaining well-being requires that the real value of the C/IW portfolio per capita be stable or rising from one quarter to the next.”

Thus, if the real per capita value of C/IW is increasing over time, development (that is, increased well-being) is sustainable, since the basis for well-being is growing faster than the rate of inflation and population growth. If it is falling over time, development is unsustainable, and well-being is either already declining or will fall at some point in the future.

**Box 3. How C/IW Is Measured**

The sustainability of national well-being requires maintaining the assets of the C/IW portfolio and passing them on to the future. If the portfolio is maintained or expanded over time, then the prospects for well-being are also maintained or expanded. An obvious question is “What exactly must be maintained?” Is it the total number of factories, cars, educated workers, trees, lakes, mineral deposits, corporate shares, savings bonds, and engaged, trusting citizens? In some sense, yes. But this is not a very useful way to think about the maintenance of wealth. For one, it would be cumbersome to keep track of all these variables statistically. More importantly, it is difficult to compare them against one another. How does a factory compare to a hectare of trees in terms of supporting well-being? Are citizens better or worse off if they own more corporate shares but levels of community trust fall?

The problems of comparability and ease of measurement are greatly reduced if all elements of the comprehensive wealth portfolio are measured using the same yardstick. Practically speaking, this means measuring them in terms of their monetary value. Monetary measurement permits simple indicators to be compiled and different assets to be compared against one another. To account for the fact that asset prices change over time, the values need to be adjusted for inflation (in statistical jargon, they need to be in “real” rather than “nominal” terms). Since population is also growing over time, it is not just the total real value of the portfolio that needs to be maintained, but the value per person.

Of course, not all assets can—or should—be measured in monetary terms. Some, like irreplaceable wilderness or the climate system, are essential to well-being. Monetary measurement of such “critical” assets is inappropriate, since it implies substitutability between these and other assets. Instead, critical assets should be measured using a relevant physical unit. Thus, a fully measured C/IW portfolio will combine both monetary and physical measures.
Initial Steps to Moving Beyond GDP and Toward C/IW

Despite its value as an indicator of sustainability, no government currently measures C/IW. Some countries measure parts of the portfolio—usually produced and financial capital and, sometimes, certain aspects of natural capital—but no country regularly measures the full portfolio. However, this situation is changing. As noted in Box 2, leaders around the world are calling for countries to measure C/IW as the basis for understanding well-being. New Zealand was the first country to commit to following this advice (The Treasury [New Zealand], 2018). Canada is also considering measuring C/IW as part of its proposed quality of life framework (Department of Finance Canada, 2021).

Adding measures of C/IW to decision-makers’ toolboxes will not happen immediately. First, decision-makers need to be informed about the concept of C/IW and its importance to measuring national progress and, especially, its importance in understanding sustainability. Second, statistical agencies need to be tasked (and provided with sufficient funding) to begin measuring the various elements of the C/IW portfolio. Finally, decision-makers need to use the new statistics on C/IW to shape public policies with the goal of ensuring maintenance (or growth) of the C/IW portfolio over time. In this section, we elaborate on these steps.

Step 1—Inform Decision-Makers About C/IW

The first step in moving beyond GDP and toward C/IW is to engage decision-makers to inform them of the need to move beyond GDP and the reasons for choosing C/IW as a new measure of national progress. The arguments against over-reliance on GDP and in favour of moving toward C/IW have been highlighted above. To engage decision-makers, these arguments could be turned into briefing notes and presentations tailored to national circumstances. While the basic arguments in favour of C/IW do not vary from country to country, the contexts in which the arguments should be made do. For the arguments to resonate with decision-makers, this context needs to be reflected in any discussions with them. For example, in discussing the importance of measuring natural capital, briefings in a country with vast tracts of native forests, like Indonesia, might emphasize the value of forests for climate resilience. Briefings for a country with large fossil fuel reserves like Trinidad and Tobago, on the other hand, might emphasize the value of sub-soil resources for international trade. And briefings for a country with large hydropower resources, like Ethiopia, could focus on their value for climate resilience.

Discussions with decision-makers should make it clear that the goal in adopting C/IW is not to displace GDP entirely, but to complement it to improve the evidence base for decision making. The desired endpoint would see both GDP and C/IW displayed on decision-makers’ dashboards. In this way, decision-makers would be better equipped to balance short- and long-term considerations. Consideration of both measures would inform decision-makers and the public.

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5 For details on current efforts to measure C/IW, see Bizikova et al. (2021).
about how the nation is doing across the many dimensions of well-being and not just the short-term economic dimension.

The initial target for such discussions would be senior decision-makers in departments with central and cross-cutting roles in government planning and budgeting. These departments generally approve policy proposals from other departments with responsibilities for specific areas of public policy (e.g., environment, natural resources, health, justice, education, security). In briefing officials of central agencies, efforts should be made to engage with both public servants and elected officials. Each plays an important role in decision making, and each will ultimately have to understand the importance of C/IW if it is to be adopted more broadly within government.

Discussions should consider that decision-making processes and policies have evolved over time to use GDP in myriad ways, and decision-makers have, consequently, grown accustomed to using GDP to guide their work. They are unlikely to see GDP simply moved to one side to make room for C/IW. An incremental approach to engagement may thus be best. Journalists and other influence shapers (e.g., policy think tanks) may be allies in this. Their role is to scrutinize and comment on government policy in one way or another, so they are natural candidates for pointing out the weaknesses of GDP and the reasons for wanting to move beyond it. At the same time, many journalists and researchers may have staked their careers on using GDP to comment on the success or failure of government policy. Thus, efforts to build their capacity and understanding of C/IW should also be considered.

Step 2—Compile Official Estimates of C/IW

Once decision-makers are engaged, the next step is to begin measuring C/IW. This is complex, technical work that should involve professional statisticians. The national statistical office is the natural place for it to be done. C/IW is cross-cutting, and statistical offices will generally have the mandate to collect information in all the domains it touches. At the same time, measuring C/IW will require data from a wide variety of ministries, departments, and agencies, so it is essential that the task have support from the centre of government.

Since measuring C/IW is complex, it is also costly and time-consuming. It would be unreasonable to expect a statistical office to measure it without additional resources to support the effort. Some statistical offices already measure some components of C/IW, though none today measures them all. A first effort at measuring C/IW could focus on produced capital, financial capital, and the part of natural capital related to commercial natural resources (e.g., timber, minerals, oil and gas). Human capital would be the next most important to measure. More complex aspects of natural capital (e.g., ecosystems) and social capital might be addressed last.

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6 Departments with central decision-making authority include cabinet offices, planning ministries, and finance/treasury ministries.

7 To give a few examples, interest rate, tax, and trade policies are all closely tied to trends in GDP.
Step 3—Use C/IW in Decision Making

Once decision-makers have agreed that C/IW should be used as a central measure of progress and the statistical office has begun producing the relevant official statistics, the next step is to begin using the statistics in decision making. There are two ways in which this can happen. First, the statistics can be employed in *ex ante* analysis. This is the analysis that goes into the shaping of new or significantly revised government policies. In *ex ante* analysis, technical experts (usually employed by the government) use data to develop quantitative arguments to compare policy options before the final choice is made. The opposite of *ex ante* analysis is *ex post* analysis, where quantitative arguments are made about the success (or failure) of a current policy. Unlike *ex ante* analysis, which is mostly undertaken by government analysts, *ex post* analysis can be undertaken by a wide range of actors in addition to government analysts: journalists, academics, other researchers, businesspeople, members of the public, and politicians.

Since *ex ante* analysis is narrower in scope, it is better suited to demonstrating the shortcomings of GDP and benefits of wealth measurement in a limited time frame. Effort to this end could be devoted to

- Determining the most important *ex ante* analysis activities within government (e.g., the analysis that feeds into development of a five-year plan where such plans are used)
- Identifying the key players in these processes (usually mid-level public servants working in central ministries)
- Engaging these individuals in early discussions around the importance of measuring C/IW
- Working with these individuals to incorporate the new C/IW measures into their analyses after they have published.

Once C/IW measures have been incorporated into important *ex ante* analyses, the next step would be to work with senior decision-makers who would use these analyses, along with other information and considerations, to choose among policy options in, for example, a new 5-year plan. The goal of this step would be to ensure that decision-makers used the new C/IW measures to drive decision making in a more sustainable direction.

Of course, the process of integrating C/IW measures into decision making should be viewed as an iterative and ongoing activity. Decision-making processes and rewards to decision-makers have been based on the short-term benefits driving GDP for many decades. Decision-makers and their processes cannot be expected to change from year to year. Moreover, the sustainability benefits of adopting a C/IW lens in decision making will take time to manifest. Lessons learned and success stories will have to be documented and used to inform subsequent rounds of engagement with decision-makers. In what will certainly be a protracted process, it will be worth recalling that without wealth there can be no resilience. And, as the COVID-19 pandemic has demonstrated and climate change constantly reminds us, understanding the resilience of well-being has never been more critical.
References


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