Move to create 'beyond GDP' index that emphasizes economic quality and continuity

Kojima Akira, Member, Board of Trustees, and Adjunct Professor, National Graduate Institute for Policy Studies (GRIPS); Trustee, Chairman of the World Trade Center Tokyo

The standards for calculating the gross domestic product (GDP) of Japan are set to be changed, beginning with the second preliminary figures to be announced in December 2016. Upon this change, the GDP is expected to be revised upward by about 3%, an increase of over 15 trillion yen. The government has stated its intent to increase the nominal GDP to 600 trillion yen by 2020 (486.6 trillion yen for the fiscal year of 2014) as one of the targets under the "new three arrows" plan. Achieving this target appears to be quite difficult, but the scheduled revision to the standards for calculating the GDP should provide a favorable boost.

Kojima Akira, Member, Board of Trustees, and Adjunct Professor, National Graduate Institute for Policy Studies (GRIPS); Trustee, Chairman of the World Trade Center Tokyo

However, this revision to the standards is not being made arbitrarily. The timing for the revision is in line with the established policy of making a revision once every five years. Reflecting capital investment by enterprises within the GDP, which is the core item of revision, is in line with the international standards that were revised in 2008. The new standards were applied in the United States in 2013 and then in Germany in 2014. After these standards were applied, the actual figures of nominal GDP of the United States for 2002 to 2012 increased by 3.0 to 3.6%. According to the trial calculation conducted by the Cabinet Office, the nominal GDP of Japan for 2001 to 2012 increases by a little over 3%.

Ongoing GDP competition and changing economic structure prompt quest for "beyond GDP"

Fukushima Kiyohiko, a former professor of Rikkyo University, has closely followed trends in identifying "beyond GDP" measures. According to him, the origin of the GDP concept dates back to the seventeenth century in the United Kingdom. It was one of the first nations in Europe to form a unified nation-state, and during the seventeenth century it was involved in repeated wars with the Netherlands, France and other neighboring countries. This incessant warfare prompted the king to order Sir William Petty to estimate the economic output of the UK because there was a need to grasp the economic strength of the country, which was the base for waging war. The method Petty developed for calculating the economic scale of a nation was called the Political Arithmetic. As the name states, the purpose of this calculation was to provide a measure of the nation's strength. The mission given to Petty was not to produce economic statistics, but to identify the income levels and capacity of each class to pay taxes and produce statistics for reference in preparation for the coming wars. As Fukushima pointed out, the word "statistics" shares the same root as the word "state" (in this case the nation), and is used to describe figures related to a state (nation), in particular taxes (*Why is the quality of the Japanese economy the best in the world? - True wealth revealed by the beyond GDP index of the UN*, 2016, PHP SHINSHO).

The contemporary idea of the GDP was created in response to the Great Depression of the 1930s. At that time President Franklin Roosevelt commissioned Simon Smith Kuznets, who was later awarded the Nobel Prize in economics, to come up with the statistics needed to accurately assess the economy of the entire nation and find a means to get out of the Great Depression. The first national income statistics (GNP: gross national product) were produced in 1934. These GDP (GNP) statistics eventually merged with the Keynesian Theory and helped to spur economic growth in the post-war world. As a result, the GDP has become an important strategic index in the politics and policy-making of individual countries, and is used to show the economic soundness and strength of industrialized states.

However, the world has changed dramatically since the end of World War 2. We have seen a transformation over time from the age of industrialized states to the age of post-industrialized states, characterized by the shift towards the service and information industries. Indexes such as the GDP and GNP are no longer able to adequately reflect the actual economy. Nevertheless, compared to other countries, China and the Abe administration in Japan appear to place more emphasis on the GDP as a strategic key index.

Here it is important to look at the global debate regarding the GDP. The first point that should be noted is the Istanbul Declaration of 2007, which is often grouped with the Declaration of Istanbul on Organ Trafficking and Transplant Tourism of 2008 and other achievements. At the meetings held in Istanbul, twenty-seven groups including the European Union (EU), the Organization for Economic Cooperation and Development (OECD), and non-governmental organizations from the United States were joined by thirty individuals for discussions on the GDP. They issued a declaration that showed the debate had reached an important turning point. The declaration called on experts around the world to recognize "the need to undertake the measurement of societal progress in every country, going beyond conventional economic measures such as GDP per capita." In response to it, the French president at that time Nicolas Sarkozy asked Joseph Stiglitz, a professor at Columbia University in the United States, to research and come up with "ideal new statistics to replace the GDP" (The Commission on the Measurement of Economic Performance and Social Progress [CMEPSP]). Stiglitz called on twenty four experts from around the world to study "beyond GDP" measures, and in September 2009 published what has come to be known as the "Stiglitz Report" ("Mismeasuring Our Lives: Why GDP Doesn't Add Up"; Japanese translation by Fukushima available from Kinzai Institute for Financial Affairs, Inc.). In the foreword of the Report, Sarkozy made the following statement: "If we do not want our future and the future of our children and grandchildren to be riddled with financial, economic, social and environmental disasters, which are ultimately human disasters, we must change the way we live, consume and produce. We must change the criteria governing our social organizations and our public policies. A tremendous revolution awaits us — we can all feel it."

UN begins development of beyond GDP measures

In April 2011, the United Nations General Assembly held a one-day symposium on developing a beyond GDP index. In this symposium, the Stiglitz Report was discussed, and a resolution requesting the United Nations Statistics Division to develop new statistics was adopted unanimously.

In June 2012, the first announcement regarding the UN's new statistics was made. It calculated the balance of three kinds of capital (human capital, produced capital, natural capital) of twenty countries for the period from 1990 to 2008, emphasizing the "ability to maintain" economic development rather than the annual economic growth rate. The OECD also called for improving eleven indexes, including environmental quality, health conditions and work/life balance (free time, etc.) by measuring the level of welfare in addition to the GDP scale. The move to improve these indexes was based on the recognition that "instead of raising the level of economic growth," there "was a need for a policy that raised the level of welfare and increased sustainability" (2015 Quality of Life Report).

There has been a growing amount of debate over the beyond GDP index. The spread of this debate shows that a new reality has emerged, one in which the GDP and GNP indexes for the period of industrialized states are no longer able to adequately reflect the changes of the economic and social structures in a post-industrial society, changes in the information/service oriented economy, rapid technological innovation in the twenty-first century, and changes in values, such as emphasis on the environment.

Professor Dian Coyle of the University of Manchester in the UK has compiled a list the items that cannot be measured by the GDP: (1) how much added value is secured through the division of labor in addition to the domestic production of individual countries as progress is made in the international division of labor due to multi-functionalized and diversified products and supply chains; (2) improvement in the quality of products and services and enhancing the satisfaction of consumers; and (3) continuation and sustainability of the economy in relation to climate change, population change and the depletion of resources, etc. (Diane Coyle, "GDP: A Brief But Affectionate History," 2015, Princeton Univ. Press).

As for Japan, the prolonged "GDP stagnation" is problematic. Economic stagnation continues, and there is little growth due to deflation because the nominal GDP has failed to move far beyond the level it was at twenty years ago. More than any other country, the makeup of the Japanese economy leaves it more susceptible to the negative impact stemming from overseas events such as the Brexit issue, and this is something that needs to be fixed. Despite the government's insistence that Abenomics has been successful, large-scale measures to stimulate demand are repeatedly implemented, and the potential growth rate has failed to rise, falling to about 0.5%. In addition, another worrying trend is that Japan appears to have been left out of the global debate on the beyond GDP index. Although the Brexit issue has thrown the EU into a state of turmoil, it was able to work out the Europe 2020 strategy in line with the Stiglitz Report and implement it. The fact that the term "GDP" does not even appear in the 32-page Europe 2020 strategy adopted in March 2010 is especially symbolic.

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KOJIMA Akira

Member, Board of Trustees, and Adjunct Professor, National Graduate Institute for Policy Studies (GRIPS); Trustee, Chairman of the World Trade Center Tokyo

Born in 1942. Graduated from Waseda University and joined the Nihon keizai shimbun (Nikkei) newspaper. Served as Managing Director and Chief Editorialist of the Nikkei and Chairman of the Japan Center for Economic Research (JCER). He is presently a member of the Trilateral Commission; Vice-chairman for the Foundation Council, Japanese-German Center Berlin; Councilor of the Aspen Institute, Japan; and Chairman of the World Trade Center Tokyo. His publications include A New Development Model for Japan: Selected Essays 2000–2008," *Chosei no jidai* (An Era of Adjustment) and *Nihon no sentaku* (Japan's Choice). He earned the Vaughan-Ueda Prize in 1988 and the Japan Press Club Award in 1989.
