MOVING BEYOND GDP TO ACHIEVE THE SDGS

Task Force 9
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World leaders increasingly believe it is time to move beyond gross domestic product (GDP) as the central measure of progress. At their 2018 meeting in Canada, Group of Seven (G7) heads recognised that GDP is “insufficient for measuring success.” In the same vein, the United Nations secretary-general wrote in 2021 that “it is time to collectively commit to complementary measurements”, calling our excessive reliance on GDP “a glaring blind spot in how we measure economic prosperity and progress.” This blind spot is one of the factors limiting the financing required to achieve the UN Sustainable Development Goals (SDGs) and realise the 2030 Agenda.

Among the handful of credible counterparts to GDP is inclusive wealth. Inclusive wealth measures the assets that underlie human wellbeing: natural, human, social, produced and financial capital. An increase in inclusive wealth signals an increase in wellbeing. Conversely, when inclusive wealth falls, wellbeing must fall as well. Inclusive wealth is, therefore, a powerful measure of sustainability.

Building on the recommendation of T20 Saudi Arabia, this policy brief calls for Group of 20 (G20) countries to move beyond GDP by complementing it with inclusive wealth indicators by 2025. Doing so is key to unlocking the financing needed for the SDGs and achieving the 2030 Agenda. GDP drives decision-makers towards short-term thinking. Adding inclusive wealth to decision-makers’ toolboxes would ensure that long-term goals like the SDGs – and the funding to achieve them – are not forgotten.
Challenges

Gross domestic product (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 citizens around the world 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 progress, GDP has become 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. Despite its widespread use as a progress measure, there are many reasons why increasing GDP may be not correlated with better outcomes for people:

- 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
- increasing income inequality and poverty
- growing time stress for families.

For these and other reasons, the concern is growing that over-reliance on GDP is distorting development objectives and hindering the achievement of the United Nations Sustainable Development Goals (SDGs). Continually targeting GDP growth leads decision-makers to favour policies with narrow, short-term economic benefits, even if those policies undermine well-being in the long run.

Some researchers argue that GDP simply needs to be modified to address its shortcomings, for example, by adjusting for the loss of environmental quality. Reforming GDP may be a part of the solution – but it is not enough. No matter how measured, GDP will always remain focused on the short-term and, therefore, insufficient as the primary measure of progress. The determinants of future wellbeing, whether economic, social or environmental, will always fall outside GDP’s scope. This is a crucial point because world leaders increasingly recognise the need to ensure well-being both today and in the future if the world is to realise the 2030 Agenda (Box 1).

Careful thought will be required in choosing the path beyond GDP, as GDP has several features that make it attractive as a decision-making guide. It is concise, summarising much
information in a single number. It is robust, resting on decades of theoretical and practical development. And, for all its shortcomings, it is relevant to the concerns of many people. What GDP measures (income in people’s pockets) really does matter. Moving beyond GDP should not mean its abandonment then. Rather, what is needed is complementary indicators that match GDP’s conciseness, robustness and relevance while providing an improved foundation for decision-making that will enhance long-term wellbeing.

The list of approaches that meet the requirements for moving beyond GDP is not long. It is easy to conceive large indicator dashboards that may cover all dimensions of wellbeing. These suffer from a lack of conciseness and, frequently, conceptual robustness, however. It is possible as well to propose various composite indexes. These are usually concise and may also be multi-dimensional, though they too can suffer from conceptual shortcomings, especially in weighting for aggregation.

A growing number of experts argue that expanded measures of wealth offer the most suitable basis for moving beyond GDP.\(^3\) This is because well-being, in the long run, is determined by a country’s stocks of human, natural, social, produced and financial capital. This suite of assets is referred to as the inclusive (or comprehensive\(^4\)) wealth 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 wellbeing, both today and, especially, in the future. A robust inclusive wealth portfolio is the basis for clean air and water, social trust, a productive workforce and innovative companies, among many other factors crucial to achieving the SDGs. Because assets are long-lived, a well-managed inclusive wealth portfolio will generate well-being for generations to come.

As a means of moving beyond GDP, inclusive wealth has much to offer. Like GDP, it is concise. Just a few indicators suffice to measure it. It is also robust, resting on theory and guidance stretching back more than a century. And it is relevant to all dimensions of well-

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\(^3\) See, for example, Arrow et al. (2012); Dasgupta (2001, 2012, 2014 and 2021); Dasgupta and Mäler (2000); Hamilton and Clemens (1999); IISD (2016 and 2018); Kurniawan and Managi (2018); Managi and Kumar (2018); Polasky et al. (2015); UNU–IHDP and UNEP (2012 and 2014); World Bank (2006, 2011, 2018 and 2021).

\(^4\) Both “inclusive” and “comprehensive” are in common usage. We take these terms as synonyms for an expanded wealth concept that adds human, natural and social capital to the traditional elements of produced and financial capital. Our use of “inclusive” here aligns with the current UN-led discussions on moving beyond GDP, in which the concept is referred to as inclusive wealth (see, for example, SEI and CEEW, 2022). Elsewhere, (IISD, 2016 and 2018) we have used the term comprehensive wealth. The World Bank also uses comprehensive wealth in its reports on the topic (World Bank, 2006, 2011, 2018 and 2021).
being – economic, social and environmental. Moreover, inclusive wealth tells a very different story about development than GDP, offering an important counterpoint to the growth narrative. The story told by inclusive wealth in many countries is one of depletion of natural capital, mounting public and private debt, insufficient investment in education, eroding public trust and growing inequality (IISD, 2016 and 2018; Managi and Kumar, 2018; UNU–IHDP and UNEP, 2012, 2014; World Bank, 2006, 2011, 2018 and 2021). The inclusive wealth thus highlights why financing the SDGs to achieve the 2030 Agenda must be a priority.

Box 1: 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 Canada5, for instance, G7 heads recognised 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”. In the same vein, the UN secretary-general urged countries to move beyond GDP in his 2021 report Our Common Agenda6. In presenting the report to the UN General Assembly, the secretary-general said7, “global decision-making is fixed on immediate gain, ignoring the long-term consequences of decisions.” If the world wants to achieve the SDGs, it requires “economic analysis based on today’s realities, rather than outdated ideas of economic success.” This means “we must correct a major blind spot in how we measure progress and prosperity.” That is why he is calling for "new metrics that value the life and wellbeing of the many over short-term profit for the few." Among the small number of new metrics the secretary-general calls for is inclusive wealth.

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 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 in standard macroeconomic indicators like GDP. GDP growth that’s at the expense of

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your assets [is] unsustainable.”8 The OECD9 and the World Economic Forum10 also encourage countries to measure comprehensive wealth as a key part of an enhanced basis for understanding wellbeing.

Similarly, Cambridge University Professor Sir Partha Dasgupta noted in his extensive review of *The Economics of Biodiversity*11 (Dasgupta, 2021) that GDP might 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 inclusive wealth portfolio and it is these that Dasgupta and other experts argue governments should urgently begin measuring.

Despite its value as an indicator of sustainability, no government today measures inclusive wealth. Some countries measure it in part, but none considers all of its elements. New Zealand was the first to commit to doing so through its wellbeing budget framework12, which includes a broad though a not fully inclusive set of asset measures. The government of Pakistan recently released a research report on inclusive wealth (UNEP, 2021). Researchers at the University of Indonesia are working actively13 to build on their previous work on inclusive wealth (Kurniawan and Managi, 2018). The German government14 is planning to transition to a “socio-ecological” economy that will focus on inclusive wealth as a measure of progress (Bundesministerium für Wirtschaft und Klimaschutz, 2022). Sweden’s Ministry of

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10 https://www.weforum.org/agenda/2019/10/how-we-can-end-short-termism-by-keeping-score/
Finance (2017)\textsuperscript{15} has a well-being framework that includes many elements of inclusive wealth. It is urgent that more countries follow these seminal efforts. Adding inclusive wealth indicators to decision-makers' toolboxes should not be controversial, as citizens intuitively understand the importance of wealth even if they are not familiar with it as a formal concept. In the long run, people understand that their well-being relies not just on how much they earn today but on their ability to earn in the future. They also understand that “earnings” include more than just money. Non-monetary benefits from positive relations with neighbors, abundant nature and safe communities all count as well for well-being. And, although they might not use the term, people understand it is their assets that determine their earning potential, both monetary and non-monetary. These include assets owned privately (like a home, savings, skills, experience and positive social relations) as well as each person’s share of the public assets owned collectively with other citizens (like healthy ecosystems and efficient public infrastructure). Together, these public and private assets make up each person’s inclusive wealth portfolio – and determine his/her prospects for the future. People understand their personal wealth portfolios must be maintained through investment over time if their well-being is to be sustained.

The same is true for countries – national inclusive wealth portfolios determine the prospects for the long-term well-being of countries. Each nation’s inclusive wealth portfolio is made up of the sum of the individual portfolios of its citizens and businesses plus the public assets owned by all citizens in common. As with individuals, the national inclusive wealth portfolio must be stable or growing over time for national wellbeing 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.

\textsuperscript{15} https://www.government.se/articles/2017/08/new-measures-of-wellbeing/
Proposals for G20

The world is at a crucial juncture. Interest in new ways of assessing progress has never been greater and calls from the UN, the World Bank and other multilateral institutions to move beyond GDP will only grow louder. Multilateral institutions cannot make a move on their own, however. Without leadership from far-sighted nations, the will and means to tackle the transition will not emerge. Moving beyond GDP will require a significant investment of public resources, the capacity to take risks and for learning by doing. It will also require co-operation among nations, as there is too much for any one country to do.

With large and highly skilled bureaucracies, significant financial resources and robust decision-making processes, G20 countries are ideally positioned to lead the necessary transition. This was already acknowledged in the communiqué of the 2020 Saudi Arabian T20, though specifics as to what new indicators should be adopted were not provided.\(^{16}\) Here we build on this recommendation by explicitly calling on G20 countries to embrace inclusive wealth as a core measure of progress. As wealthy nations already, G20 members have much to gain by doing so, as protecting wealth and wellbeing is easier than building it.

The move beyond GDP will be a multi-year transition, as decision-making processes will not change overnight. By starting now, G20 efforts can pave the way for others, demonstrating why moving beyond GDP matters and how measuring inclusive wealth can change the perspective on what matters in the long term. To hasten the transition, G20 countries are called on to tackle four specific challenges (outlined below). These could be addressed relatively quickly (within three years) using approaches rooted in sound theory and well supported by international guidance.

First, G20 countries are called on to engage their decision-makers and counterparts in like-minded nations in capacity building around inclusive wealth. Its value as a policy guide must be explained and the barriers to its adoption – such as outdated economic thinking and inadequate statistical frameworks – identified. To be effective, capacity building will have to be tailored to national and regional circumstances. While the basic arguments in favor of inclusive wealth do

\(^{16}\) Proposal 19 in the 2020 T20 communiqué calls on the G20 to “adopt and promote the use of measurement tools that provide a new theoretical basis for assessing wellbeing beyond GDP”.
https://www.t20saudiarabia.org.sa/en/Communique/Pages/default.aspx
not vary from country to country, the context in which the arguments must be made does. After all, each country has its own unique inclusive wealth portfolio. Since decision-making involves both technical staffs, who prepare policy options, as well as senior officials, who choose among the options, capacity building will be required at various levels. Technical staff will need training, for example, to craft new modeling tools incorporating inclusive wealth and senior officials will need guidance in overcoming their instincts and incentives to think “short-term”.

Second, G20 countries should commit to the regular measurement of inclusive wealth. National statistical offices (NSOs) in the G20 are among the best in the world and they are up to the task. However, they will require additional resources, as measuring inclusive wealth is a significant undertaking. It requires, among other challenges, resolving questions around the measurement of so-called “shadow prices”¹⁷ and agreeing on standards for measuring the various elements of the inclusive wealth portfolio (see the appendix). This will demand collaboration among NSOs to identify suitable methods and data sources that can be applied widely while allowing for differences between countries in terms of priorities and statistical capacity. With adequate resourcing, advanced NSOs should be able to produce useful estimates in two-three years. The desired endpoint would see inclusive wealth indicators in every G20 decision-maker’s toolbox by 2025. Such enhanced toolboxes would do much to ensure decision-makers kept their eyes on both the short and long terms and on all dimensions of wellbeing.

Third, once officials at various levels are engaged and NSOs have begun producing the data, G20 governments should commit to using inclusive wealth measures to shape new decisions. The goal should be to identify investments that will enhance long-term wellbeing by enhancing the inclusive wealth portfolio rather than by simply boosting short-term economic growth. In some countries, this might be investments in education to build human capital, while in others, it might be controlling pollution to preserve natural capital. Such decisions would provide important opportunities to argue for, among other things, enhanced public and private financing for the SDGs.

Finally, recognising that it is not enough to simply track the size of the inclusive wealth portfolio, G20 countries should commit to identifying a small set of additional indicators to track how successful they are at turning their wealth into actual wellbeing. Well-being comes from

¹⁷ Shadow prices are prices that reflect the full marginal social value of assets. They are often proxied by market prices, which have the advantage of being observable, though there are good reasons to believe that markets do not reflect social value in many instances.
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consuming the goods and services produced when assets are applied in production activities, both within and outside the market. The benefits of the goods and services produced within the market are already captured by GDP (which is why it should be retained). What GDP fails to capture are the benefits of goods and services produced outside the market. These include many of the benefits of natural capital (e.g., clean air and water) but also many of the benefits of social capital (e.g., community safety and mutual trust). A complete framework for measuring progress, then, would comprise inclusive wealth indicators along with GDP and a handful of complementary indicators focused on wellbeing benefits arising outside the market. The purpose here is not to articulate these other indicators but simply to note their necessity as part of the move beyond GDP. Like inclusive wealth indicators, these additional indicators must also be concise, robust and relevant if they are to be accepted by decision-makers.¹⁸

As noted, the need to move beyond GDP was already acknowledged by the T20 during the Saudi Arabian G20 presidency. It is time now to come forward with more concrete proposals. As the 2022 president, Indonesia is encouraged to capitalise on the current global interest in moving beyond GDP by supporting the call here for members to begin the necessary step of measuring inclusive wealth. Given that these changes will take time, continued leadership from the upcoming G20 presidents, India and Brazil, will be essential. Moving beyond GDP will not be easy. But change is inescapable if today’s short-term bias is to be replaced with a more balanced perspective focused on what matters in the long run – sustainable wellbeing for all.

¹⁸ Along with colleagues from The New Institute and the Global Solutions Initiative, we discuss indicators of current wellbeing that could be used to complement GDP along with inclusive wealth in a parallel Policy Brief prepared for T20 Task Force 5.
References


Appendix – The Need for Convergence in Methods for Measuring Inclusive Wealth

Standard approaches to the measurement of many elements of the inclusive wealth portfolio are already laid out in international statistical guidance. Produced and financial capital stocks have always been part of the *System of National Accounts* (SNA) and are measured by many countries today. Natural capital is also part of the SNA and/or its companion framework, the *System of Environmental Economic Accounting*, and is increasingly measured. Human capital is not yet covered in official statistical guidance and only research estimates are available. Several methods of measuring human capital exist in the literature (UNECE, 2016), but agreement on the best approach to use does not yet exist. Social capital is furthest from being covered in international guidance and not all researchers agree on how – if at all – social capital should be included in inclusive wealth measures.

Both the World Bank and UNEP have substantial experience measuring expanded wealth. The World Bank, which uses the term “comprehensive wealth”, has released global reports on the topic under its “wealth of nations” series regularly since the early 2000s (World Bank, 2006, 2011, 2018 and 2021). UNEP, which uses the term “inclusive wealth”, has released three global reports since 2012. Both agencies intend to pursue this work and to further integrate wealth indicators into their country’s engagement strategies. Though there are many commonalities between the two agencies in terms of the scope, methods and data used to measure expanded wealth, differences do exist. G20 leadership could be beneficial in encouraging the agencies to review and align their approaches in the name of converging on a single, global approach.

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19 This may soon change, as human capital is among the concepts being considered for inclusion in the next edition of the SNA, due in 2025.