

# Economics in Brief



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## Alternative welfare is measurable

Author: Dr Jörg Zeuner, phone +49 (0) 69 7431-2931, [research@KfW.de](mailto:research@KfW.de)

Criticism of Gross Domestic Product (GDP) is almost as old as GDP itself. For the most part, too much is asked of GDP. It measures value creation and provides information on the level of our national income, its origins, and how it is used – nothing more, and nothing less. This is important for many economic decisions.

Alongside this, another type of yardstick merits equal support – a multi-dimensional indicator which measures social prosperity and progress, as was adopted by the Bundestag on 6<sup>th</sup> June, following the report from the Commission of Enquiry on Prosperity, Growth and Quality of Life. And the time is now ripe for this concept: just as sustainable investors no longer rely solely on a company's financial report, it makes sense to adopt a holistic approach when measuring national economic performance.

### Green Growth needs a competitive measure

This is not a matter of bringing economic success to a halt, or determining when we have got enough. In the area of income distribution, for example, without growth any increase in income for one individual would lead to a fall in income for somebody else. It is much more an issue of what quality – beyond value creation – lies within our production structures and our patterns of consumption. The particular challenge here is to represent this “quality”, which is per se complex in nature, within a single, simple measure, or a very small number thereof. A collection of individual measures of well-being – with numerous economic, environmental and social targets – would be both confusing and cumbersome; it would lack transparency and make international comparisons difficult.

### The KfW Sustainability Indicator

The KfW Sustainability Indicator is an example of a multi-dimensional analysis which seeks the middle path between simplicity and information quality. This indicator, calculated by the KfW, provides quantitative information on the progress of sustainable development within Germany. It looks at the three dimensions of sustainability – the economy, the environment, and social cohesion – and provides an indicator for each, as well as another indicator which combines all three dimensions. First compiled in 2007, it is one of the few sustainability indicators to be established in Germany to date. Experience shows that the timely availability of data and the slow, protracted pace of change in some of the indicators represent the greatest obstacles to producing a simple design and which can be used as an early warning system.

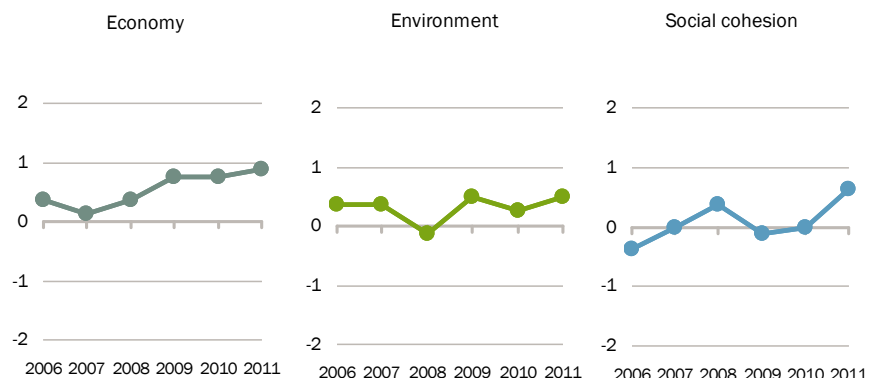
But the results from our newest Indicator also show that it is possible to undertake an extremely differentiated assessment at a highly aggregated level. For example, in 2011 a healthy level of consumer

expenditure contributed to a positive outcome for the economic dimension. However, this took place – and this is not self-evident – neither at the expense of the environment, which benefited substantially from the energy turnaround, nor at the expense of social quality, which made gains, amongst others, in better integration of foreign fellow citizens (see chart).

### Conclusion

The report from the Commission of Enquiry stresses that Planet Earth sets limits on the use of finite resources, and making progress in technology and productivity is therefore of fundamental importance. In future, growth will require even greater innovation. The recently launched national and international Green Growth initiatives provide another reminder: now more than ever before, reducing the environmental burden created by consumption is a prerequisite for sustainable economic activity and for raising incomes. The KfW Sustainability Indicator addresses this issue. Hence our broader index of welfare, which includes environmental components containing, for example, data on anthropogenic emissions of carbon dioxide and nitrogen and the loss of biodiversity around the world, embodies – at least in part – the wishes of the Commission of Enquiry. ■

Chart: KfW Sustainability Indicator, 2012 – three dimensions



Source: KfW