

Beyond GDP: Three Other Ways to Measure Economic Health

April 19, 2023

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Countries around the world measure their prosperity. One of the most common measures, though imperfect, is gross domestic product, or GDP. Besides GDP, there are other measures of economic health, some of which I will discuss in this blog post.

GDP measures the value of the final goods and services produced within a country. That is, [GDP is the sum](#) of consumption, investment, government spending and net exports.

Although GDP and its changes are the most popular indicators of a nation's overall economic output, [economists have long recognized](#) that it is an imperfect measure of overall economic well-being. For example, GDP does not account for the production of pollution or consider the health and education of the population and other factors tied to well-being. Because of this, various governments and organizations have started following alternative measurements such as the Human Development Index, Better Life Index and Genuine Progress Indicator. These are some of the most prominent measures that go hand in hand with GDP. For example, Hawaii, Maryland and Vermont have started implementing a Genuine Progress indicator.

Emphasizing People and Capabilities: Human Development Index

The United Nations created the Human Development Index (HDI) to provide an alternative indicator that emphasizes people and their capabilities, instead of economic growth alone, for assessing the development of a country.

The HDI consists of three categories: health, education and standard of living, as the United Nations Development Program states in an [overview of the index](#) on its website. "The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean [average] of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age," according to the website.

Gross national income (GNI) per capita is used to measure the standard of living dimension. A logarithm of GNI reflects the diminishing importance of incomes as GNI increases. The three dimensions are then pulled together in a composite index.

HDI takes a more comprehensive approach than GDP growth with a view of the economy that includes human development. However, the indicator is not perfect.

For example, the HDI assumes that certain components are equal trade-offs, thus allowing two countries to get the same HDI score, when in reality one of those trade-off components might be considered to be more important, under some circumstances, than the other.

Also, the indicator does not reflect other important human development factors such as inequalities, empowerment or poverty, as the program website points out. Empowerment is providing people who are perceived as being less fortunate or disadvantaged the ability to improve their situations.

The U.N.'s development measure could also be viewed as subjective. For example, the development measure rewards choosing more academic education over trade school or work. Further, GNI is very highly correlated with GDP and subject to most, if not all, of the critiques of GDP as a measure of development.

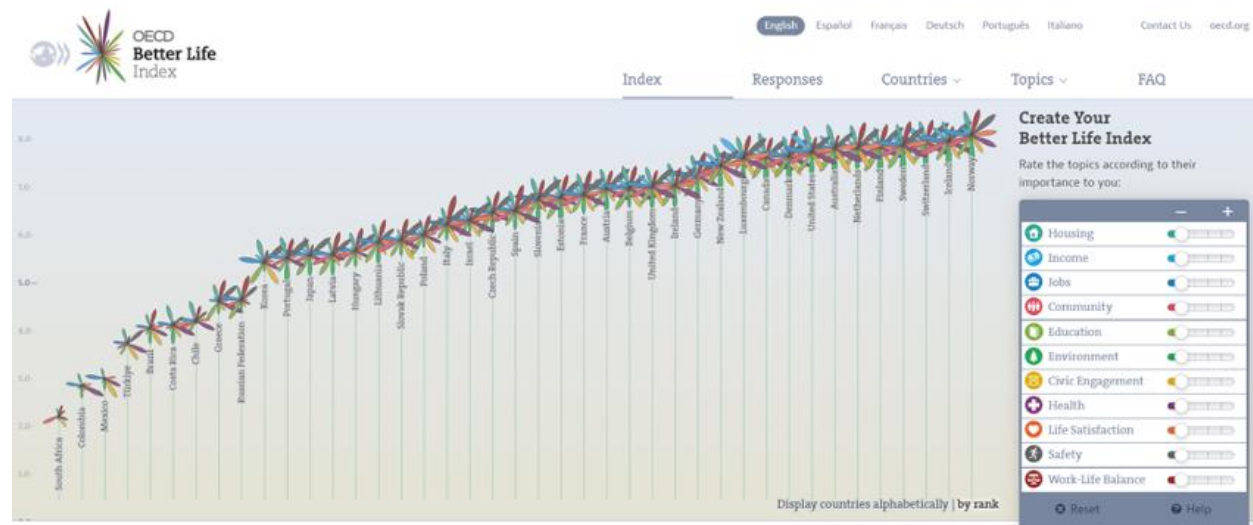
Comparing Ingredients for Well-being: Better Life Index

The Better Life Index (BLI), created as part of the Organization for Economic Cooperation and Development's (OECD's) Better Life Initiative, provides a comparison of the ingredients for people's well-being across 11 "topics" for 41 countries.

Topics the OECD identified as essential to well-being relate to material living conditions (housing, income, jobs) and quality of life (community, education, environment, governance, health, life satisfaction, safety and work-life balance).

The data for community, for example, are based on the "perceived social network support," or the percentage of people who "report having someone to count on for help in times of need." Along with the emotional toll, having a weak social network can limit economic opportunities, according to the OECD.

One to four indicators are used to measure each of the topics.



This screenshot taken March 15 of the [OECD Better Life Index](#) shows the 11 categories, or topics, a user can adjust to create a personalized ranking of countries.

This [interactive index](#) allows users to decide on which topic matters to them the most and to personalize their rankings accordingly. The index also allows a comparison across genders.

One drawback is that the index is only available for a fraction of the countries in the world and does not allow for comparisons over time. For that reason, the BLI may not be comprehensive enough. The categories also could be deemed arbitrary.

Weighing Environmental and Social Factors: Genuine Progress Indicator

The Genuine Progress Indicator (GPI) is designed to measure the well-being of a country by taking into account economic, environmental and social factors, as described by [Gross National Happiness USA](#), a network of activists, analysts and advocates.

The factors for each aspect might vary depending on the entity using or creating a GPI. The version shown on the Gross National Happiness USA website, for example, is different than that used by Hawaii's [Department of Business, Economic Development and Tourism](#). The economic aspect may include variables such as personal expenditures and income inequality. For the environmental aspect, the index mostly includes factors such as ozone depletion and climate change. Crime, family breakdown, and more are included in the social aspect.

The data that go into the calculation of the GPI reflect the impact of externalities such as the negative effects of pollution. However, that could also lower the scores of oil- and gas-producing countries that export those products in exchange for other countries' goods whose production doesn't generate as much greenhouse gas emissions.

The index also assigns values to societal contributions like volunteering and higher education.

At least three states—Hawaii, Maryland and Vermont—have started reporting their GPI. That said, some observers deem variables in the index to be too subjective. Hence, the index might not be effective for cross comparisons.

The three indexes highlighted in this blog post are commonly referenced to measure economic health. However, there are other indexes that can be explored, with Green GDP and Happy Planet Index among them.

About the Author

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