

## **The “Stiglitz report”: A well-argued assessment, a questionable method, and proposals that are not up to current challenges**

**A response by the FAIR forum to the draft summary report issued by the Stiglitz Commission.**

*The Stiglitz Commission<sup>1</sup>, set up in 2008 by the French President, Nicolas Sarkozy, to explore the limitations of current measurement indicators of socio-economic performance, recently issued a draft summary report on its website in English, in order to “collect comments and suggestions”.*

*The FAIR (Forum for Other Indicators of Wealth) Collective was formed following the establishment of this Commission to ensure that existing work on these issues is taken into account. It also aims to ensure that civil society is broadly involved in the Commission’s deliberations. Its response to this draft summary report can be found below.*

We are pleased that the Commission officially recognizes the limitations of gross domestic product (GDP) as an indicator of economic performance and social progress, and that its Chairman, Joseph Stiglitz, has publicly stated that the current measurement indicators rendered us almost blind to the crises developing around us.

We belong to those community collectives and research networks that, over many years, have highlighted the dangers posed by these leading indicators, which fail to provide us with warning signs that would enable us to take action in time to prevent crises, and which tell us nothing about inequality, environmental pressure, common goods or, in short, the well-being of all, within a sustainable and shared environment. We would therefore like to stress that this represents a very important step forward (1).

On the other hand, we have reservations about the method used by the Commission to draft and communicate the report. In fact, the search for complementary or alternative indicators to GDP should have represented a major opportunity to engage in a meaningful dialogue with civil society. However, the Commission worked in “private” (2), producing proposals that were not subject to debate, some of which being not only inadequate but, in our view, posing a number of major risks (3).

Our response aims to modify the substance and form of the report and to set out a number of avenues that we would like to see explored in the final report (4).

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<sup>1</sup> Named after the Commission’s Chairman, Joseph Stiglitz, winner of the 2001 Nobel Prize for Economics.

## **1. We broadly agree with the points raised by this report, which represents a turning point in history.**

At a basic level, we welcome the advances made in terms of the report's assessment. The Commission's report officially recognizes not only the limitations of gross domestic product, but also the risks it poses when misused as a basis for social policy-making. Having criticised, since the late 1990's, the dangers inherent in the misuse of this indicator (Méda, 1999; Perret, 2002; Viveret, 2002; Gadrey and Jany-Catrice, 2005, etc.<sup>2</sup>), supported by association collectives and territorial stakeholders, who had also come to the same conclusion, and who all met with the same level of indifference from the relevant statistical, economic and political authorities, this represents a significant shift in thinking that we are keen to acknowledge.

The first chapter defines GDP and describes its deficiencies and existing attempts to improve it by emphasizing national account aggregates other than GDP (in monetary units). It officially recognizes the limits of this aggregate: "Gross domestic product (GDP) is the most widely used measure of economic activity. Gdp is a measure of mainly market production, though it has often been treated as if it were a measure of economic well-being. Doing so can lead to misleading indications about how well-off people are and entail the wrong policy decisions." This chapter explores three key limitations of GDP that we had highlighted previously: GDP only takes certain activities into consideration; it is not affected by unequal participation in production or consumption; it does not take into account the damage inflicted on society and the environment by the excesses of productivism and deregulation. It therefore failed to alert us to the fact that we have exceeded the limits of our use of certain essential goods, and that the most disadvantaged groups are now paying a high price for these actions.

That the Stiglitz Commission itself has recognized this fact is a major step forward.

The report proposes to replace the notion of production with that of net national disposable income and envisages the possibility of including measures relating to the value of household production and leisure, along with indicators that enable us to more effectively take inequality into consideration. We agree with the proposals designed to highlight inequalities. However, we believe that the monetarization of household activities should not be addressed from a purely economic point of view. It must be discussed in relation to its advantages and disadvantages for public actions, to the same extent as other monetarization possibilities, and with regards to its possible effects on women's employment and the sharing of household and family tasks. That's why the emphasis placed in the report on improved and more frequent time budget surveys deserves to be highlighted.

## **2. Questioning the report's methodology**

The report, which is the result of a year of exploration and analysis, was compiled by a number of esteemed figures.

Our disappointment in terms of the method employed is on a par with their prestige, the significance of the work they performed to promote another society and another way of using the economy, and the hopes that we had placed in their desire for an open debate. As Amartya Sen has asserted: "the role of indicators is to help bring these debates into the public arena.

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<sup>2</sup> And Harribey, 2004; Cassiers and Delain, 2007; Boutaud and Gondran, 2009, etc.

They are democratic decision-making instruments. (Le Monde, Tuesday 9 June 2009) “That’s what democracy is for”, he added. “To discuss the world we want to live in.”

However, there was no question of a public debate on “the world we want to live in”, either in or around the Commission. Or very little. Organised civil society groups were not invited to take part in a genuine public consultation exercise. During the twelve months of work performed by the Commission, two delegations from FAIR were received, at our request, for a very brief meeting. No organised civil society partners were included. No hearing has been planned. The idea of organising a public consultation within a short timeframe, based on a technical document available exclusively in English, represents a major obstacle for civil society in appropriating the terms of the debate. This is deeply regrettable and does not suggest a real desire for dialogue.

We would also question the implicit idea that publishing a document online (the report is available on the Commission’s website) is equivalent to a public consultation. What standard of collective consultation did the members of the Commission base their choice on? And how do they plan to take into account the proposals that will (perhaps) be put forward by a handful of citizens, without a preliminary debate and simply submitted without a dialogue, exchange or an attempt at jointly developing an informed public opinion?

### **3. Questioning the key proposals**

The report contains numerous proposals, the most detailed of which (chapters 1 and 3) assign primary importance to economic methods. This tendency is due to the fact that the Commission is mainly made up of economists, which contrasts with the initial aim of the project: What social progress are we aiming for? What well-being and for whom? What quality of life? In the report, the major global challenges are considered in terms of “intermediate consumption”, “investments”, “expenditure”, “gross” and “net capital”, “depreciation” and “savings”. These categories are, for the main, targeted at economists. However, it is this same emphasis on purely economic standpoints that has blinded us in the past.

Another basic problem is the very definition of sustainable development (chapter 3), which is divorced from quality of life and the quality of society, and disconnected in particular from the issues of inequality and poverty, the challenges of democracy, and social and cultural diversity, which provide the foundations for the richness and distinctive variety of humanity.

Here and there, several proposals relating to choices of a philosophical nature are raised (chapter 2 on quality of life) but remain unresolved: How will the decisions be made? Who is going to take responsibility for these “value-based” issues?

The social conditions in which this report was produced have inevitably led to a juxtaposition of theoretical visions pertaining to specific “schools”, without the pooling of these visions via a collective debate on these issues. This has given rise to inconsistencies, which are not simply the result of the adherence of the participants to different theories. They are also due to the vagueness of the working methods.

Here are two examples. On the one hand, while promoting “subjective measures of well-being”, the report has not sufficiently stressed that, until now, these have always been developed within the framework of utilitarian studies, based on the individualism of the

“agents” (people). Within this conceptual framework, the notion of “common good” is abandoned in favour of a “subjective individual well-being”, which each person seeks to maximise. Who is going to tell or remind them that we are, on the contrary, living through an era in which the action of one person has a definite impact on others, in the Southern hemisphere as in the North, and for future generations? Or that, given the threats facing our societies (major pollution, social fragmentation, climate change, etc.), we are all in the same boat? That the basic rights of some are infringed by the behaviour of others? We are societies and not collections of individuals, living side by side. We have collective interests, a shared destiny and common goods. We strongly believe that only society in its plurality should decide on matters pertaining to its collective interests.

Another example is that of “monetarization”. It is presented as a valuation process that poses real problems (paragraph 37. in *Income and wealth come together*) while, a few pages further on, the report suggests the use of an all-encompassing monetary measure (Adjusted Net Savings or ANS) that would monetarize everything: the economy, environment, level of education, etc.

***Adjusted Net Savings (ANS): An indicator to exclude from future key signals***

Physical indicators of pressure on the environment, which are of primary importance in our view, including the “ecological footprint”, created on the initiative of the non-governmental organisation, WWF<sup>3</sup>, are examined and sometimes recommended in the report (mainly carbon footprints). But the preference and significant developments go to ANS (adjusted net savings), a monetary indicator created by the World Bank, and which forms part of the conventional “counting techniques” of some economists. ANS is based on the sum of three values: variations of economic capital derived from production, “human capital” assessed on the basis of education expenditure, and an acrobatic monetary estimate of fluctuations in natural capital and environmental damage (limited to climate change alone). If the ANS is positive from one year to the next, the country is assumed to be following a sustainable development trajectory.

The ANS, notwithstanding the fact that it remains an indistinct research project, should not be included as an indicator in future benchmarks. On the one hand, it is impossible to understand by non-specialists and therefore cannot be used to democratically inform public or private policies. On the other hand, it is based on an unacceptable hypothesis according to which the three forms of capital are interchangeable or “substitutable”: in short, if we seriously harm the environment, it is not considered to be significant if the two other components “compensate” for it. The report’s authors understand this but have limited themselves to announcing future research designed to remove this “imperfection”.

In addition, by removing the social and democratic dimensions of progress, inequality and poverty, it turns its back on the notion of sustainable development to which the authors claim to adhere. Any idea of “social heritage”, which would include issues such as solidarity, social cohesion, ties and the reduction of inequality, is excluded from the conception of development that forms the basis of this indicator. But isn’t social heritage part of our collective heritage? Isn’t it a precious “capital” for future generations?

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<sup>3</sup> World Wide Fund for Nature

Such monetary assessments are, in reality, much more “arbitrary” than the many all-encompassing non-monetary indicators which are more or less disapproved by the Commission. In fact, in order to monetize environmental variables, the authors rely above all on long-term scenarios, based on physical indicators. For citizens and public actions, this method offers nothing more than that offered by much more transparent physical indicators. It even has the inconvenience of preserving the monopoly on expertise held by economists.

In summary, instead of opening doors to encourage debate and dialogue around the issue of the wealth of nations and more generally “the world we want to live in”, the Commission’s economists often remained the prisoners of their own field and lacked audacity: the audacity to create and to make a clean break with the past, to engage in a wider-reaching dialogue and analysis, both philosophical and anthropological, and the audacity to take a collective approach. These doors have been closed, one by one.

#### **4. The next step?**

Behind all of the choices set out by the Commission, there are values that are more or less acknowledged. There is an urgent need for future indicators to reflect the values on which we want to build our society, rather than those of a handful of experts.

Everything mentioned in this note relates first and foremost to key challenges that society needs to reclaim. It is vital and urgent that citizens are invited to debate these issues of common interest, within a constructive and ambitious framework and at all levels, from local to international, in response to the challenges involved in building “the world we want to live in”, to use A Sen’s words.

Reappropriating these challenges and engaging in debate, based as a priority on the input of citizens, trade unions, associations, existing consultative bodies at an international and a national level (in France, for example, the CNIS<sup>4</sup>, the CESE<sup>5</sup>, the author of a recent and stimulating report on sustainable development indicators) and in the territories (in France, the CES(E)R<sup>6</sup>, sustainable development councils, etc.), elected officials and various groupings, are the price to pay to ensure that the social conditions required for the emergence of a new vision for the future and its key benchmarks are in place. We need a debate and soon on the institutional innovations needed to address these new accounts.

For that, we need to promote new joint decision-making practices and a new vision of expertise that take into account the actual experience of all members of society.

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<sup>4</sup> Conseil national de l’information statistique/National council for statistical information.

<sup>5</sup> Conseil économique, social et environnemental/Economic, Social and Environmental Council.

<sup>6</sup> Conseils économiques, sociaux (et environnementaux) régionaux/Regional Economic, Social (and Environmental) Councils.

Many of us think that:

1. There is an urgent need to redefine social progress and the way it is measured in order to ensure the economy serves the interrelated social and environmental goals.
2. In this regard, the Commission is addressing a number of key issues and has provided a well-argued critique of the current measurement tools.
3. However, its response lacks coherence and does not go far enough by failing to fully explore the concerns raised by its own questions (by focusing often on measures of societal progress based on monetary equivalences).
4. Future indicators should reflect the essential values that our societies aim to promote, alert us to the most serious risks, and be easily understood by everyone.
5. The development of these indicators should therefore be the subject of a far-reaching democratic debate at government and territorial level.
6. The consultation proposed by the Commission does not fully meet this requirement: a report available exclusively in English, a style intended for experts, and a very short feedback period will not encourage the expected debate.
7. Citizens, trade unions, associations and various organisations feel concerned by these issues and dispose of resources, both at local and international levels, which should be recognised in order to develop a convincing and legitimate response on which to build our common future.