Towards a Sustainable and Inclusive Index of Development in the New Development Reality

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Abstract

The Gross Domestic Product is an index of income generated in an economy during a given period of time. It is the money value of all goods and services produced in an economy during an accounting period. In a broader sense, it is an aggregate measure in monetary terms of all commodities (goods and services) produced in an economy during a given period of time. An increase in GDP reflects economic growth but doesn’t take into account the sustainability with regard to environment, inclusiveness, life expectancy, health, education, freedom and the overall happiness of the people. The development of other alternative indices of development like the Human Development Index (HDI), Physical Quality of Life Index (PQLI), Happy Planet Index (HPI) and the related concept of Gross National Happiness (GNH), the recently developing index of the Social Progress Index (SPI), all pointing towards the drawback of the most commonly used index of GDP per capita. The recommendations of the Sen-Stiglitz Committee on the possibility of a holistic index of development in 2009, Sen’s concept of development as freedom and other arguments against the validity of monetized measure of GDP, all pointing towards the possibility of including the excluded variables in GDP per capita. A CDS-UN study on Kerala economy in 1975 found that around 30 years of development experience of the Kerala economy in significant human development equivalent to the European standard of living. A study on economy of Permanence by J.C. Kumarappa-a disciple of Gandhi in 1945 also pointing towards the scope for an all inclusive and sustainable index of development.

Key Words: Sustainable development, Inclusive Growth, Human Development Index, Happiness Index

Introduction

It was in 1935, that GDP as an index of development was first developed by Simon Kuznets and he himself warned that it should not be used as a measure of welfare. Only after the Bretton Woods Conference of 1944, that the GDP became the main tool for measuring the country’s economy. Lack of consistent, logical models in the field of development economics helped to justify the popular impression that economic growth was some mysterious phenomenon difficult to understand. Simon Kuznets in the very first report to the US congress in 1934 highlighted that, the welfare of a nation can, therefore scarcely be inferred from a measure of national income. (Simon Kuznets, 1934). Later he questioned the very logic of growth, “goals for more growth should specify more growth of what and for what ( Simon Kuznets, 1962). The Gross Domestic Product is the market value of all officially recognized final goods and services produced in a country during a specified period of time. The World Bank economists in the 1970’s advocated a policy of growth and redistribution. By the 1980’s this approach was sidelined by the neoliberal approach of development. It was in the 1990’s that the UNDP took up growth through redistribution and renamed it as human development.

The GDP per capita do not reflect the wealth in its total perspective. An increase in GDP reflects economic growth but doesn’t take in to account the sustainability with regard to environment, inclusiveness, life expectancy, health, education, freedom and the overall happiness of the people. GDP Per capita as an index of development itself is having an inherent drawback of not having inclusive due to financial sector exclusion, sector bias and exclusion of the traditional agricultural sector, other exclusion as highlighted in the Human Development Index (HDI). Etc. When we are going for analyzing a proper yardstick inclusive of the various factors which yet to be included, it is the failure of giving proper place for man in economics. Here, it is worthwhile to see the observation by John Ruskin in his ‘Un to This Last’ long ago: "Pardon me. Men of business do indeed know how they themselves made their money, or how, on occasion they lost it. Playing a long practiced game, they are familiar with the chances of its cards, and can rightly explain their losses and gains. They have learned a few, and only a few, of the laws of 'mercantile economy', but not of those of 'political economy'. John Ruskin further gave an outline for whom to be treated by the term economists. “The farmer who cuts his hay at the right time and place, of useful or pleasurable things; the shipwright who drives his bolts well home in well-tempered mortar; the housewife who takes care of her furniture in the parlour and guards against all waste in her kitchen; and the singer who rightly disciplines and never overstrains her voice; are all political economists in the true and final sense, adding continually to the riches and wellbeing of the nation to which they belong.”
The general trend in the 1980s were human development and along with that trend accompanied the concept of development as capacitation. That is why Jan (2001) has stated that the core definition of Human Development report of UNDP is the enlargement of people’s choices. The enlargement of people’s choices is the core definition of development in the Human Development Report of UNDP. Statement of the Problem.

When the index of GDP per capita was developed by Simon Kuznets warned that it should not be used as a measure of welfare. A CDS-UN study on Kerala economy in 1975 found that around 30 years of development experience of the Kerala economy in significant human development equivalent to the European standard of living. National economic policies are now centred on the GDP per capita as the only index of development and the index gained its further strength in the present Neo classical economic policy of higher growth through the opening up of the market.

Theoretical Background of the Study

Development economics as implied in the GDP per capita is currently delimiting the boundary especially by the neoclassical economics by not encouraging adequate attention in the area of inclusiveness and sustainability. The new pure economic theoretical framework concerned with only two pillars of the economy-production and exchange. The broadened theoretical framework of the old political economy theoretical framework of the old Political economy considers the four main pillars of the economy together- production, consumption, distribution and exchange.

The money and market oriented yardstick of GDP per capita is not in tune with the environmental economics objectives when uncontrolled growth is detrimental to the environment, in sociology field when growth limits the sociological fabric and the fabric of the family. It is also not compatible with the objectives in psychology when growth sometimes retards the happiness of the people, in fundamental science when growth yardstick is not suitable compared to the post Newtonian development in fundamental physics.

The analytical thinking as used in development theories even though useful in positive economic thinking is not useful when we consider economics as a value science or a normative economic framework. A harmony of values emerges when we deal with growth in the context of normative economics. This theoretical difference is highly useful when we consider the development of a composite index of development. The use of dialectics, as used by Karl Marx, Hegel, Socrates, and the eastern philosophers are highly useful in searching for a composite index of development. The theory of dialectics is used in philosophy to address the paradoxes. In development, higher growth and corresponding fall in other variables in the present and future wellbeing can be addressed by putting the present and future wellbeing of man at the centre of discussion in economics. Growth and related satisfaction, job creation, poverty alleviation, enhanced happiness, a life in rhythm with his own environment, through enlarged opportunity are capable of being enjoyed by man.

Historical background of the study

Before Aristotle, economics was treated as a part and parcel of the broader frame work of political economy. The specialization of the subject and the pros and cons are associated with development economics is a phenomenon after Aristotle and it emerged as a narrow specialized market related field in the present neoclassical era. In this study the historical assessment of the theory of development and the indices of development from the old mercantilist school onwards is part of the study. The emergence of different indices of development like the Human Development Index (HDI), Happy Planet index (HPI), Physical Quality of Life Index (PQLI), the recently introduced Social progress Index (SPI), etc are highlighting certain excluded fields and the reason behind the origin of other variables of development are essential in this particular study. Further the assessment of certain ideas of development emerged from the economists, environmentalists, sociologists, psychologists and other valuable contribution from the thinkers of different fields are part and parcel of the study.

The concept of Inclusive and Sustainable Development

The concept of sustainable development is much older one. It was in around 400 BC that Aristotle referred it in the discussion of household economies. By around 1972, the term sustainable development was used by the Club of Rome in an epoch making report on the “Limits to Growth”. Sustainability addresses basically two concepts- carrying capacity of the natural system and the social challenges faced by the humanity.
To the Brundtland commission(1987), “Sustainable development is development that meets the needs of the present without compromising the ability of the future generations to meet their own needs”. It is required to balance social, economic and environmental objectives or needs.

The United Nations’s World Summit outcome Document (2005) highlighted the independent and mutually reinforcing pillars of sustainable development, a number of authors argued that a set of well defined and harmonized indicators is the only way to make sustainability tangible. A greater challenge for the researchers in this area is to identify and adjust different sustainable development indices and they have to be adjusted through empirical observations. Hamilton (1999) and Dasgupta (2007) viewed the economy and environment as a single interlinked system with a unified valuation methodology. Arrow et al. (2004), Asheim (1999), Pessy(1989,1997), have advocated for a form of real criterion for sustainable development, the requirement that the wealth of the society, including human capital and natural capital should not decline over time.

Ulrich Beck (1992) contrast simple modernity concerned with ‘mastering nature’ with reflexive modernity in which moderns are increasingly concerned with managing the problem created by the modernity. To, Halstead and Cobb (1996), redefining progress has become a major preoccupation both in South and in North.

Inclusive Development

Inclusive growth is often used interchangeably with broad based growth, shared growth, and pro-poor growth. It is focusing on both the pace and pattern of growth. It is focusing on both the pace and pattern of growth. The commission on Growth and Development (2008), focused the need for addressing growth and the pattern of growth together. An inclusive growth strategy, ensures the following elements: First, it should be broad based across different sectors of the economy. Second, it should have the inclusiveness of the labour force of the country. Further, employment generation and income distribution should be ensured as the potential outcome of growth. Finally, the financial sector should have a pro-poor basis.

Many people of the world today are excluded from development because of the differences in gender, ethnicity, age, sexual orientation, disability or poverty, and thereby widening the gap between the rich and the poor. The Human Development index 2005 observed that, using a global income distribution data base, we estimate a cost of $1 day threshold, that amount represents 1.6 per cent of the income of the richest 10 per cent of the world’s population.( Human Development Report,2005, New Delhi, P.4).

Deepak Nayyar (2006) stated that the wellbeing of humankind is the essence of development. In fact, the litmus test for the performance of an economy is neither economic growth nor economic efficiency but the ability to meet the basic needs and the growing aspirations of the people.

To Jan(2001), redistribution with growth was prominent in the 1970’s but was sidelined under the neoliberal era and is currently being revisited. Further, the World Summit for Social Development in Copenhagen (1995), economic growth and social development impinge on each other. To Galbraith(1996), in a good society, there must not be a deprived and excluded underclass.

Midgley (1995), pointed out the problem of social problem from development policies. To Ha – Joon Chang (2004), there can be no meaningful distinction between economic policy and social policy.

Towards an Inclusive and Sustainable Yardstick for measuring Development

To Jan (1999), development is too complex to allow partial approach to have their way. What is required is combining different angles and approaches which yield a holistic assessment of development. To him, many development theories are addressed by mid-range or micro theories.

A Joint workshop organized by the United nations Environment Programme (UNEP) and the World Bank which established the feasibility of the physical and monetary accounting in the area of natural resources and environment and tried to develop environmentally adjusted macroeconomic indicators for sustainable income and product.( Yusuf Ahmad, Salah Serafy and Ernst Lutz, (ed), (1989), ‘Environment Accounting for Sustainable Development’. 
The Statistical division of the United Nations (UNSTAT) has already developed the methodology required for the system of an integrated environmental and economic accounting. The integrated environmental and economic accounting components were tested in the case studies of Mexico, Papua New Guinea and Thailand. The surprising aspect of the result of the case study is that, environmental accounting were not only feasible but also can provide valuable information base for integrated development planning and policy.

In recent times significant themes emerged in development policy from time to time, which are intersectoral cooperation, social diversity, human security, gender and environment, and changes in development cooperation and structural reform. All these new developments are pointing towards the need for viewing development in a broader perspective and the need for a holistic and broad index of development.

The Need for a Post Newtonian index of development

To John Eatwell, Murray Milgate, Peter Newman (1989), the father of economic was familiar with Newton’s ideas and the Smithian economics was structured around the Mechanistic Newtonian scientific framework. The GDP Per capita, as an index of development considers only a fraction of the value world and stands as an index of the old Newtonian time. To Fritjof Capra (1981), fundamental science underwent tremendous changes in the post Newtonian era and these changes were never incorporated in the system by the later economists. When we considers an ideal index of development, the Newtonian system fails to see the jobless growth in GDP, the exclusion of the contribution of the housewives and the traditional inhabitants in the total value frame. The system further fails to see the implication of global warming, the extinction of different species in the system due to uncontrolled expansion of GDP. Intermittent recession, the growing gap between the rich and poor in development and the exclusion of human happiness in addition to growth are also not possible to be discussed in the Newtonian system.

Various other Alternative Indices of Development

An important criticism against the model of only growth orientation can be seen by the formation of other indices in the realm of development. In fact, the growing disenchantment among economists, with the concept of GDP per capita resulted in the development of indices like the Human development index (HDI), Gross National Happiness (GNH), the Physical Quality of life Index (PQLI), Genuine Progress indicators (GPI), Measures of Economic Welfare (MEW), Net Economic Welfare (NEW), Green Index, Economic Development index (EDI), Index of Sustainable Economic Welfare (ISEW), Global Prosperity index, Happy Planet Index (HPI), and the World Map of Happiness.

To Mahbub Ul Haq (1996), the objective of development is to create an enabling environment for the people to enjoy long, healthy and creative lives.


The need for an alternative index of development achieved its momentum after the recommendation of the Commission on Measurement of Economic Performance under the chairmanship of Joseph Stiglitz and the advisor hood of Amartya Sen. The committee was constituted by the French government in 2008, when the countries all over the world experienced recession. For the objective of attaining the sustainability and inclusiveness in the GDP per capita, the committee recommended some valid recommendations. The committee recommended that, while measuring material wellbeing, we should take into account income and consumption rather than production. Another important observation is that, even though, income and consumption are crucial for assessing living standards, in the end, they can be gauged in conjunction with information on wealth. To the commission, the measure of wealth is central to measuring sustainability. Even though, average income, consumption and wealth are meaningful measures, they do not reveal the full story of the living standards. The commission pointed out that, the average measures should be accompanied by proper indicators which reflect their distribution. A worthwhile recommendation of the commission is that the income measures should be broadened to include non-market activities.

The commission proposed to include the following aspect to measure the quality of life: (1) Material living standards like income, consumption and wealth, (2) Health, (3) Education, (4) Personal activities including work, (5) Political voice and governance, (6) Social connections and relationships, (7) Social connections and relationships, (8) Insecurity of economic and physical nature.
The commission further recommended for the requirement of a well-identical dashboard of indicators for the assessment of sustainability. The recommendations of the commission are worthwhile moving towards a people friendly, nature friendly inclusive and sustainable index of development.

Development can be equated with happiness

The effort to equate happiness with development can be seen from the works of economists like Easterlin, John Ruskin, Thoreaue, etc. However, the concept was used extensively by Bhutan- a small country which used the term Gross National happiness (GNH) in the place of GDP per capita. The term was coined by Bhutan’s former King jigmew Singye Wangchuk, in 1972. The GDP per capita measures the amount of commerce in a country, but it also includes the remedial and defensive expenditures such as the cost of security, police, pollution, cleaning, etc as positive contributions to commerce. At the same time, this index excludes the non-market benefits such as volunteer work, unpaid domestic work, unpaid eco system services etc. In 2006, Med Jones, the President of International institute of Management introduced a second generation GNH concept treating happiness as a socio-economic metric which proposed an index function of the total average per capita of the seven measures like Economic wellness, Environmental wellness, Physical wellness, Mental wellness, Workplace wellness, Social wellness, and Political wellness.

Human Development Index - India and Kerala

For the contribution of HDI, the position of the Indian economy and Kerala is comparable. It is also possible to see the position of the Indian economy compared to other countries of the world.

Human Development Index of Selected Countries of the World

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI value</th>
<th>HDI rank</th>
<th>Life expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>0.943</td>
<td>1</td>
<td>81.1</td>
</tr>
<tr>
<td>USA</td>
<td>0.910</td>
<td>4</td>
<td>78.5</td>
</tr>
<tr>
<td>Japan</td>
<td>0.901</td>
<td>12</td>
<td>83.4</td>
</tr>
<tr>
<td>Italy</td>
<td>0.874</td>
<td>24</td>
<td>81.9</td>
</tr>
<tr>
<td>UK</td>
<td>0.863</td>
<td>28</td>
<td>80.2</td>
</tr>
<tr>
<td>UAE</td>
<td>0.846</td>
<td>30</td>
<td>76.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.761</td>
<td>61</td>
<td>74.2</td>
</tr>
<tr>
<td>Sreelanka</td>
<td>0.691</td>
<td>97</td>
<td>74.9</td>
</tr>
<tr>
<td>China</td>
<td>0.687</td>
<td>101</td>
<td>73.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.619</td>
<td>123</td>
<td>52.8</td>
</tr>
<tr>
<td>India</td>
<td>0.547</td>
<td>134</td>
<td>65.4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.504</td>
<td>145</td>
<td>65.4</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.500</td>
<td>146</td>
<td>68.9</td>
</tr>
<tr>
<td>Congo</td>
<td>0.286</td>
<td>187</td>
<td>48.4</td>
</tr>
</tbody>
</table>

Source: Human Development Report 2011

India’s position was 134 in Human Development in 2011 and ranked under the countries having medium human development in the world. However, over the last three decades, the HDI value has improved. The HDI value for the Indian economy was 0.344 in 1980, enhanced to 0.410 in 1990, which in turn was raised to 0.461 in 2000. During the period, 2005, the HDI value was 0.504, and it improved to 0.547 in 2011.

Kerala continuously regaining the highest position in Human Development, and placed top in this Human Development Report. The consistent higher values of the health, education and income index is the reason behind high HDI of Kerala.
Conclusion

Thus, the GDP per capita as a measure of development failed to take in to account the real world issues especially within and outside purview of economics. It failed to recognize the historical, political and social settings in which economic behavior takes place. On the whole it is a value science centered on man and the need to find out a well crafted index by including the excluded factors as pictured above thus comes under the purview of normative economics rather ‘than in positive economics. The recommendations of the Stiglitz-Sen committee can be utilized for developing an ideal index of development. Then only it can encounters social, political and psychological factors. The issue of sustainability and inclusiveness in development can be addressed only by moving towards the money centre of economics to the man, his surroundings and wellbeing and happiness.

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