Commentaire

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After the Second World War, many countries embarked on a path of industrialization that caused an exponential increase of income levels within a few years. Yoshikawa (2021) talks about the 6000 days that transformed Japan, and the same is true for Italy (Ardeni and Gallegati, 2022). This industrialization differs in part from that followed by the older industrializing capitalist countries, and favored the production of more mature, less technologically advanced and more labor-intensive goods. Production volumes, supply and demand for consumer goods, employment and income levels have been increasing, as have resource consumption and environmental degradation. In addition, everywhere income inequalities are not diminishing: the middle group is growing, but the income gap between the top and the bottom is widening. Today, capitalism is the most widespread and dominant economic system in the world. These trends are cause for concern.

In fact, when we put the above elements together, the system presents more than one problem. Exploitation of resources, environmental degradation and global warming call for attention that questions the mechanism that has made current development possible. On the other hand, the very functioning of the system, while it has allowed the improvement of the standard of living and the increase of incomes, presents distortions that appear worrying. After the Second World War, there was a widespread hope that capitalist development would allow a better lifestyle and higher income levels for everyone. The positive impact on the well-being of a large part of the population is undeniable.

The problem seems to lie precisely in that well-being. As Stiglitz *et al.* (2010) emphasize, it matters how you measure this. Congested cities, beehive-like condominiums where hundreds of people live, polluted environments and aquifers, unhealthy factories and workplaces do not appear as elements of well-being. Urbanization is then associated with an increase in traffic, crime, and pollution. If for many people work is no longer a driver of "alienation" and does not give rise to "exploitation", nor is it a factor of "emancipation" and social promotion. The division of labor remains rigid, and social mobility is absent, especially for the working class. The school and the education system are classist. Furthermore, in advanced capitalist societies, the absence of sociability along with discrimination and exclusion have brought the psychological burden of social divisions to the fore. As Piketty (2013) has shown in his studies on inequality and well-being, the more unequal a society is, the unhappier its people are. Fitoussi and Stiglitz talk about the link between well-being, happiness and economic and social conditions.

The two of them emphasize that, "to change things, you need to know how to measure them." GDP is an emblematic measurement error, since it measures everything to which the market assigns a price - an exchange value – and neglects well-being, which instead refers to the value-in-use. For example, innovations – which are the source of increases in economic well-being – have prices that are not comparable, if only because some products did not exist. Stiglitz (2023) reminds us: "If debt increases but assets rise even more, the country is better off – and so, too, are future generations. This is true whether one invests in infrastructure, education, research, or technology. But even more important is natural capital: the value of our environment, water, air, and soil. If our air and water are polluted and our soil is contaminated, we are passing on a greater burden to our children." And natural capital is priceless.

First Kuznets and then Kahn and Meade, in constructing the measurement of GDP, were clear in maintaining that GDP is not remotely an evocative measure of well-being. In fact, no quantities go into GDP that are not measured by prices, which are in turn determined by the market. The coincidental identification between well-being and GDP dates back to the invention of GDP itself and is the result of a deliberate misunderstanding. GDP is not intended to measure anything that does not pass through the market and is therefore not "priceable."

The second issue raised by Fitoussi and Stiglitz relates to inequality.

GDP is a measure that does not consider distribution, while GDP per capita is an average value. The empirical distribution of this follows a power law, which – as we know – has no mean. Attempts to correct

GDP for the variability of the distribution are therefore doomed to failure. GDP is an approximate measure of growth, which is not well distributed among classes of income earners. For this reason, economists use the Gini index – which, however, Gini himself considered inappropriate for measuring distribution, as it was constructed to measure only the concentration of income and not its actual distribution.[1]

Why today's dominant economic theory continues to use such sophisticated and inconsistent modeling is not always clear,[2] but some logical inconsistencies need to be corrected.[3] Fitoussi and Stiglitz propose measurements that go beyond the GDP since, after all, the informative power of the aggregated data is very weak, as the economy is only one part of welfare – the others being Nature and Society.

References

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1. For this reason, the indicator formulated by Zanardi, which considers the effective distribution of income, appears more suitable (Gallegati et al., 2016; Landini *et al.*, 2019.)
2. Fitoussi once said: "I have long wondered about the reasons that drive many economists, even among the best, to invest their intelligence in the construction of theories whose complexity is second only to their uselessness".
3. Or perhaps, the two welfare theorems enunciated by Pareto provide the demonstration of the view that the market is desirable. "It is not an overstatement to say that they are the underpinning of Western capitalism" (Fisher, 2011). Because they are derived from general economic equilibrium theory, they form the theoretical foundation according to which capitalism guarantees efficiency and optimality. By demonstrating that individual self-interest leads to collective welfare through the free market, one ensures one's own academic perpetuation, as if economics were a natural science and not a discipline in which historical events matter.

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Commentaire de l’article

Jean-Paul Fitoussi et Joseph E. Stiglitz, 2012

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