

Going beyond Gross Domestic Product to measure what really matters

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Credit: AI-generated image ([disclaimer](#))

The publication of the latest EU Transitions Performance Index (TPI) provides an important opportunity to assess how countries are progressing towards fair and prosperous sustainability beyond headline growth figures.

For over 70 years, one figure has trumped all others when it comes to measuring a country's success: Gross Domestic Product (GDP). It is used as the key [indicator](#) to measure the size and strength of economies, and rising GDP has traditionally been equated with rising prosperity; a goal prized by politicians, policymakers, and economists the world over.

But what have been the actual costs of this quest for perpetual growth, and might there be a better way of assessing a country's progress?

Take climate change, a crisis fueled by rising emissions and over-consumption, which both contribute to rising GDP. A reliance on one headline indicator, which is unable to distinguish between "beneficial" and "harmful" economic activities, or inequalities in society, means we may be missing much of what matters for measuring and promoting wellbeing and sustainability.

A more holistic view of progress

Measuring what matters is behind the development of a new composite indicator, the [Transitions Performance Index \(TPI\)](#), by the European Commission. TPI is both a scoreboard and a composite indicator that monitors and ranks countries based on their transitions towards fair and prosperous sustainability. Its aim is to offer a more holistic view of a country's progress.

Speaking at [its launch event](#) in 2020, Commission Research and Innovation Director-General, Jean Eric Paquet, explained the importance of developing new indicators to drive forward the ambitious policies that are required post-pandemic. His comments echoed those of Commission President, Ursula von der Leyen, whose [State of the Union Address](#) described how COVID-19 had 'laid bare...the limits of a model that values wealth above wellbeing.'

Assessing the performances of 72 countries, including all 27 EU Member States, TPI uses pre-existing, international data from the past decade. Its [second edition](#), which was published on 14 March, points to strong performances from all Member States, most notably Denmark and Ireland; second and third in the global ranking behind only Switzerland.

In the report, Mariya Gabriel, Commissioner for Innovation, Research, Culture, Education & Youth, noted: "Our Transitions Performance Index (TPI) provides a tool for developing well-balanced policies in a complex and multi-faceted reality by keeping track of the recovery and the transition towards a more sustainable, competitive and inclusive growth model for the post-pandemic era."

Dr. Daniela Benavente, a Chile-based economist and specialist in the construction of composite indicators, helped to develop and refine TPI for the Commission. For her, shifting the development focus through TPI can be a gamechanger. "We have to change the paradigm of development as not being just growth, not being just economic development, but being all these other environmental, social and governance issues, otherwise it's just not sustainable," she explained.

A superleague for sustainability

For Benavente, TPI offers the potential to better embed sustainability in policymaking, encouraging and enabling countries to share best practice towards more sustainable futures. She said: "The fact that we're using an index is important, the focus is on metrics and evidence, but there is a normative effect in signaling what it is that matters."

Within the TPI, countries are ranked and allocated into five performance groups denoting their status from "leader," "strong," "good," "moderate" and "weak."

Underneath TPI's four main performance pillars—"economic," "environmental," "social" and "governance"—sit 16 sub-pillars which range from education to health, through to participation in decision-making. The latest edition has also evolved to better mirror transitions in the economy and the environment. It has two new key features, including a focus on digital data to capture the role of digitalization in the economy, and a new indicator to track countries' material footprint to better reflect the environmental impact of consumption.

According to Benavente, another way of looking at these indicators is that some emphasize opportunity (education, work, and inclusion), others resilience (health, fundamental rights), others prosperity (wealth, non-remunerated time), and others intergenerational fairness (emissions reduction, sound public finances, material footprint, biodiversity).

She credited its focus on governance as a crucial component for setting TPI apart from other indicators. "Everything has to do with governance, how you make decisions, how you involve the public in policymaking. Whilst this is not always easy to capture, without good governance you can never achieve resilient, inclusive and sustainable growth."

Worryingly, the latest data suggests that despite overall improvements in countries' TPI performance, governance transition scores are declining globally.

Building sustainable policies

Elizabeth Dirth, senior policy consultant at the [Zoe Institute for future-fit economies](#), has been involved in multiple projects focused on redefining and measuring prosperity, including through the organization's own ["Compass Towards 2030"](#) dashboard. She said indicators like TPI are essential, but the key question is how they are embedded in policy processes.

"Fundamentally, indicators don't give us a direction of travel. We need to set goals and targets and, while it's really important to have visibility of these issues and their inter-connections, we have to also talk about where we are going, what are our goals, aspirations; what's our North Star?"

Ensuring TPI can be successfully applied to policy has been built into its development by Dr. Benavente and colleagues. In contrast to most indices, which cover one year at a time, progress is judged over the 2011–2020 decade against pre-defined policy "goalposts."

What is interesting, said Dr. Benavente, is that the EU and Member States are already performing particularly strongly in the TPI. "It's not that the EU is picking the right indicators, it's that they have understood what good growth looks like and from their policies and targets, their collective efforts are working well," she explained.

For the EU, the TPI is expected to play an important role in measuring progress towards objectives under the 8th [European Action Program \(EAP\) to 2030](#) and the European Green Deal. The European Parliament recently requested the Commission to provide a ["beyond GDP" dashboard](#), as part of the EU's efforts to implement the UN Agenda 2030.

Grace O'Sullivan MEP is the rapporteur for the European Parliament on the 8th EAP. An ecologist by training, she understands the links between environmental, economic and social policies. For instance, the EU's framework program for environment policy recognizes the need for economic transformation. The important part is how progress is measured.

"There exists a plethora of indicator sets that measure progress by looking at more than just GDP, and these could and should serve as

useful governance tools for policymakers. The 8th Environment Action Program recognizes the potential of these indicator sets, like the TPI, to act as a helpful tool in measuring progress towards a more sustainable and just EU," she explained.

Bending the curve

Whilst TPI offers a way ahead for more sustainable prosperity, Elizabeth Dirth stressed that a 70-year history of GDP cannot be undone overnight. "The challenge is that GDP is not only deeply embedded in our policy processes and frameworks, but also embedded in the technical aspects of how we understand our economic health. Sometimes there's an under-estimation around the decoupling in our mindsets."

One of the areas where these trade-offs will be most acutely faced is the environment. Despite certain examples of progress, the latest TPI suggests that most countries have so far not "bended their curves" towards the green transition, remaining on a path of increasing emissions, material use, loss of biodiversity and energy inefficiency.

These issues will increasingly come to the fore for developing and emerging economies—from Morocco to Indonesia—those which currently perform well on the TPI sustainability indicators but now look to further industrialize. This economic development could hamper their environmental scores.

Dr. Benavente points to the TPI's two-page country profiles which include detailed metrics that highlight a country's performance against a range of indicators and use progress arrows to provide a warning when things are off track. "The red arrows are the alarms," she said, "be mindful and bend those curves!"

She hopes that in time TPI can act as a brake in tilting curves, enabling

emerging economies to develop but in more sustainable ways. "Clearly, economic growth remains important, and countries want to grow. But the message has to be: grow within confines, be careful and build on your strengths to address your weakness, not one at the expense of the other," she added.

In the context of emerging EU policies, post-COVID recovery plans and UN Sustainable Development Goals (SDGs), it is now hoped the TPI can act as an important counterbalance to GDP. Backed up by ambitious policies, it provides a valuable way of assessing how countries are progressing towards greener, more resilient, and more inclusive societies.

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