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The Economic Measurement of Real Progress*

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Diane Coyle:
The Measure of Progress: Counting What Really Matters
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Diane Coyle is the Bennett Professor of Public Policy at the University of Cambridge and co-director of the Bennett Institute. She is a member of the UK Government's Industrial Strategy Council and has previously served on the Competition Commission. Her main areas of expertise are digital economy, productivity and measuring progress. In her latest book, published in April 2025, she seeks to answer the question of how real progress can be measured in significantly changed circumstances, given that it has become increasingly clear that GDP is no longer fit for the purpose of capturing new, important outcomes.

The main reason for this is that when GDP was created, the leading sector of economies was manufacturing, the expansion of which was not yet constrained by natural resources. At that time, GDP was still a good method of measuring economic growth. Today, however, the structures of both the economy and consumption have undergone major changes and are still evolving. For example, in the USA, in 2023 manufacturing accounted for only 11 per cent of total value added in the economy. One decisive factor here is digitalisation, whose outcomes GDP can only partially measure. By contrast, current economic, industrial and economic policy decisions have long-term effects, making it essential that they be based on indicators that use data collected by appropriate methods and that describe the real state of the economy as accurately as possible. Coyle argues that GDP no longer meets these requirements. It no longer accurately measures what is actually happening in the economy, i.e. whether there is genuine progress or merely unhealthy growth, and supports her case with an extensive range of literature, theoretical reasoning and practical examples. The following highlights some of her most important arguments.

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Measurement problems

According to the author, roughly 4/5 of actual economic activities today are difficult to assess using traditional performance measurement methods. This is because the structure of the economy is in constant transformation. Technological changes and digitalisation blur the boundaries between production and services. The spread of "servitisation" – the intertwining of manufacturing and service activities – is a case in point. Companies increasingly offer various services alongside products; in some cases, they may not sell the product at all, but rather lease it instead, providing maintenance and, after a set period, replacement – for a monthly subscription fee. In other words, companies offer solutions to customers rather than products. Disintermediation, the removal of intermediaries, is also becoming more common, shortening value chains and shifting the emphasis of value creation. An example is the growth of online orders, where customers interact directly with the company, or the emergence of cryptocurrencies. Companies increasingly find opportunities for value creation not in manufacturing, but in running networks and platforms and in so-called intangible activities enabled by digitalisation – activities that are hard to measure, but are of growing importance. One such area is the "attention economy", in which companies seek to capture people's attention, since attention itself is an intangible and "scarce resource". Influencers are often used in this effort. Other features of today's economy that we see more and more of include "intellectual value chains", call centres and data centres, where vast quantities of data move around the globe and no one can measure yet exactly where and how much real value is being created. In general, value creation by digital service providers is hard to track – for example, the performance of cloud service providers. The author groups these under the term "invisible economy". Free digital services, which create significant new value and improve people's quality of life, are also absent from national performance measurement. Coyle also notes the difficulty of measuring new forms of work in the changing labour market, which are hard to capture with traditional data collection and indicators. Examples include the problems of measuring the value created by "digital nomads", "freelancers" in the creative industries and the short-term contractors of the so-called "gig economy", who work for multiple clients at the same time.

Through these examples, the author demonstrates that GDP – created in a world dominated by industry and physical goods – is no longer suitable for measuring national economic performance in today's changed circumstances. Indeed, it may even be misleading, because it cannot measure the new value generated in the digital sphere, while it may overstate activities that are potentially harmful to progress. This leads directly to the broader question of how progress can be measured.

Added value, market value, social value

Coyle emphasises that the economy is not independent of the natural and social environment, since it uses their resources. Therefore, even if we could measure economic growth accurately, this alone would not tell us whether there is progress and therefore whether the economy is creating social value. It is equally important to ask whether the functioning of institutions is improving and whether the quality of products and services is getting better. These factors are characteristics of progress, not merely growth. What is needed for better quality? More knowledge, better organisation, more innovation – in other words, a growing share of intangible assets. This, in turn, improves productivity, the author argues, and productivity improvement is one of the most important signs of progress. However, we should not think only in terms of the traditional per capita or per hour measures. We should also measure the efficiency of using natural resources, energy, time, knowledge and space and that of the functioning of public services and institutional systems. For example, saving time frees up valuable hours for higher-value activities. This can be called the “time economy”. Overall, the traditionally measured added value should be expanded to include the measurement of the additional social value created. As a solution, the author proposes using “shadow prices”. Shadow pricing could measure real value creation when the market value does not fully reflect – or fails entirely to show – the total new value generated, including social value.

Conclusion

Drawing on a vast body of background material, Diane Coyle tackles a subject that has been in the spotlight for some time: the more objective measurement of economic performance and its relationship to progress. The “Beyond GDP” research programmes, which mainly demonstrate the disadvantages of measuring GDP, are well known, as are analyses focusing on GDP’s shortcomings from the perspective of environmental and social externalities. However, Coyle’s book goes beyond these. She proposes measuring the full real economic and social value created. She shows that the economy, natural environment and society can function successfully only when seen as a balanced system. This means measuring progress, including the current state of different forms of capital (stock) and the ongoing activities (flow) that bring about the changes in their state – either increasing or reducing them.

What is required, therefore, is a balance sheet–type approach: a comprehensive inventory of wealth that measures tangible physical and intangible (knowledge, intellectual) assets and inputs. This must take into account time lags – for example, an investment made today that, in future, will increase life expectancy or reduce industrial emissions is, while a cost now, a significant creator of value in the long term, improving social and environmental quality. Without such thinking, we risk becoming poorer, as today's economic decisions may increase environmental, social and human damage. Coyle includes debt in this category: it may serve current growth, but in the longer run, it can hinder progress. Changing the measurement methodology is important even though we currently lack the necessary data and a universally accepted methodology. However, poor measurement is better than none, the author warns. After all, data and measurement underpin the decisions we make today, which have long-term consequences for the functioning of the whole system, and measuring with GDP alone is like driving with only our rear-view mirror, Coyle says.