Professor Scott Stern of MIT 's Sloan School of Management

Can social progress enhance a society's ability to compete economically?

A Civic Caucus Focus on Competitiveness Interview

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Present

Dave Broden (vice chair), Pat Davies, Paul Gilje (coordinator), Curt Johnson, Sallie Kemper, Ted Kolderie, Dan Loritz (chair), Dana Schroeder, Clarence Shallbetter. By phone: Scott Stern.

Summary

According to MIT's Scott Stern, coauthor of *The Social Progress Index 2014* , the study's key finding is that economic development is not sufficient to explain a country's social progress outcomes and GDP per capita is an incomplete measure of a country's overall performance. *The Index* shows, Stern says, that on average, social progress outcomes are better as GDP per capita increases. But that doesn't necessarily hold for many advanced economies, where there can be big gaps between a country's ranking on GDP per capita and its ranking on social progress. Another important finding of the study is that there is no direct, tightly linked correlation between publicly funded inputs, such as education spending or health spending, and social progress outcomes.

Stern points out that the social dimensions of people's lives and whether or not those are improving have not been measured and understood nearly as well as the economic dimensions. *The Social Progress Index 2014* , he explains,takes a rigorous look beyond traditional measures of economic development and GDP in 132 countries in order to understand the relationship between economic progress and social progress.

For the study, social progress is defined as the capacity of a society (1) to meet the basic human needs of its citizens, (2) to establish the building blocks that allow citizens to enhance and sustain the quality of their lives, and (3) to create the conditions for all individuals to reach their full potential. The authors divide these three broad dimensions into components that could be systematically calculated and compared across countries.

New Zealand, Switzerland and Iceland ranked first, second and third in their total scores on the social progress measures. The United States ranked 16th, higher than France (20 th), but lower than Germany (12th), the United Kingdom (13th), Japan (14th) and Ireland (15th). Brazil ranked 46 th, Russia 80th and China 90th. Chad (132 nd) came in at the bottom of the rankings.

Biography

Scott Stern is the David Sarnoff Professor of Management of Technology at the MIT Sloan School of Management and chair of the school's Technological Innovation, Entrepreneurship and Strategic Management group.

He is coauthor, with Michael Porter and Michael Green, of *The Social Progress Index 2014,* a ranking of livability in 132 countries that aims to go beyond economic metrics to measure social factors, which, the authors contend, are also important to economic growth.

Stern started his career at MIT, where he worked from 1995 to 2001. Before returning to MIT in 2009, he held positions as professor at the Kellogg School of Management and as senior fellow at the Brookings Institution. He is the director of the Innovation Policy Working Group at the National Bureau of Economic Research. In 2005, he was awarded the Kauffman Prize Medal for Distinguished Research in Entrepreneurship.

He holds a B.A. in economics from New York University and a PhD in economics from Stanford University.

Background

The Social Progress Index 2014 , of which Scott Stern of MIT is a coauthor, ranks New Zealand first overall among the 132 countries ranked in the study on a variety of social progress measures, followed by Switzerland, Iceland and the Netherlands, all of which have lower GDP per capita than the United States. The U.S. ranks 16th on the index, just behind Ireland. While the U.S. ranks first in access to advanced education, it ranks 70th in health, 69th in ecosystem sustainability, 39th in basic education, 34th in access to water and sanitation, 31st in personal safety and 23 rd in access to cellphones and the Internet.

See *The Social Progress Index 2014 Country Scorecards* for a complete country-by-country ranking on each of the measures used in the study.

Discussion

***The Social Progress Index 2014* takes a hard-nosed, rigorous look beyond traditional measures of economic development and GDP in order to understand the relationship between economic progress and social progress.** According to Scott Stern of MIT, there has been a dominant focus, in looking at economic progress, on the impact of particular initiatives on GDP. "There has always been a belief," he said, "that the reason we can focus on GDP is that economic progress will inevitably lead to social progress. In other words, if we can solve the economics, then these broader issues of social progress are likely to be addressed in a useful way."

"But it's not clear that that's true," he continued. "It's useful as a first step to decompose what we mean by economic development and GDP versus social development and social progress. Social progress itself can facilitate the conditions that lead to economic development. Economic development can facilitate social progress. Or, in some cases, you can have a country that can achieve very high economic progress, but that may be at the expense of social progress."

The objective of the *Index* is to measure social progress directly and then to explore the relationship between social progress and economic progress in a systematic way that can lead to public action. To do that, Stern said, the authors used four broad design principles to develop a consistent, rigorous, holistic, objective measure of social progress.

1. The index would be constructed from a set of measures that are exclusively social and environmental in nature. It would take economic measures off the table, in order to sharpen the understanding of the relationship between social and economic progress.

2. The index would focus on social progress outputs, not inputs. For example, if literacy is an output, then money spent on education is an input. In future work, there will be more exploration of the relationship between inputs and outputs.

3. The index would find a meaningful way to benchmark social progress across the widest range of countries. The work would focus on a cross-section of countries, rather than changes over time within each country.

4. The index would allow countries or regions to see their strengths and weaknesses and to understand opportunities for action and collective decision-making.

Social progress is the capacity of a society (1) to meet the basic human needs of its citizens, (2) to establish the building blocks that allow citizens to enhance and sustain the quality of their lives and (3) to create the conditions for all individuals to reach their full potential. The authors consulted withadvisory boards, academicians and practitioners to develop this relatively simple definition. The three broad dimensions in the definition are divided into the following 12 components:

(1) Basic Human Needs

- Nutrition and Basic Medical Care;
- Water and Sanitation;
- Shelter;
- Personal Safety.

(2) Foundations of Wellbeing

- Access to Basic Knowledge;
- Access to Information and Communications;

- Health and Wellness;
- Ecosystem Sustainability.

(3) Opportunity

- Personal Rights;
- Personal Freedom and Choice;
- Tolerance and Inclusion;
- Access to Advanced Education.

For each of these 12 components, the authors identified a series of measures that can be calculated across countries in a systematic way. From those measures, the authors generated a score on each component for each country in the study. The scores for the components were added up to come up with each country's score for each of the three broad dimensions. Then those scores were added up to calculate each country's aggregate score.

FINDINGS

Based on countries' Social Progress Index (SPI) aggregate scores, the study identified a series of six tiers of countries. Each tier includes countries with close aggregate scores.

1. The first tier (aggregate scores of 86 or above) includes the top three countries, New Zealand, Switzerland and Iceland, all with strong scores across all social progress dimensions. The tier is rounded out with the rest of the top 10 countries: the Netherlands, Norway, Sweden, Canada, Finland, Denmark and Australia.

2. The second tier (aggregate scores of 80 to 85) includes the next 13 countries (ranked 11th through 23rd overall): ranging from Austria at the top to the U.S. near the middle (16th overall) to the Czech Republic at the bottom. This tier includes five members of the G-7: Germany, the United Kingdom, Japan, the U.S. and France.

3. The third tier (aggregate scores of 71 to 79) includes 16 countries, ranging from Slovakia at 24th overall to Israel at 39 th overall. It is a diverse group of nations, with countries at sharply different levels of economic development. Stern said there are "massive gaps" between how these countries rank in economic progress vs. social progress, showing that high GDP per capita alone does not guarantee social progress.

4. The fourth tier (aggregate scores of 58 to below 71) includes 52 countries, ranging from Kuwait at 40th overall to Morocco at 91 st overall. These countries are closely bunched in terms of their overall SPI scores, but have widely differing strengths and weaknesses. Four of the five BRICS countries , Brazil (46th), South Africa (69th), Russia (80th) and China (90 th), are in the fourth tier.

5. The fifth tier (aggregate scores of42 to 57) includes 33 countries, ranging from Uzbekistan at 92nd overall to Pakistan at 124th overall. The aggregate SPI scores of most countries in this tier are substantially lower than those of most countries in the fourth tier. Many, but not all, of these countries also have low GDP per capita. The fifth BRICS country, India (102nd overall), is in the fifth tier.

6. The sixth (and bottom) tier (aggregate scores of 32 to 40) includes eight countries with the world's lowest levels of social progress. The countries range from Yemen at 125th overall to Chad at 132 nd overall. Their SPI scores provide evidence that extreme poverty and poor social performance often go hand-in-hand.

The study's key finding is that economic development alone is not sufficient to explain social progress outcomes and GDP per capita is an incomplete measure of a country's overall performance.

- On average,Stern said, social progress increases with GDP per capita, but in most advanced economies, it's a relatively flat relationship. "So, there can be big gaps between where you register in terms of GDP per capita and where you register in terms of social progress," he said.

- Stern said some aspects of social progress are more correlated with GDP per capita than others. For example, basic human needs are tightly linked to GDP per capita, while areas such as opportunity have a much weaker relationship to GDP per capita.

Countries can translate the measurement data into a framework for action. " For example," Stern said, "in countries like Paraguay, Costa Rica and Brazil, we've been able to intensively involve business, government, unions and nongovernmental organizations (NGOs) in using these findings as a mechanism for formulating a social progress policy."

The Social Progress Index **uses countries as the basic unit for comparisons for two reasons: (1) to get a series of comparable measures for which data are available at the national level, but not at the subnational regional level; and (2) because policymaking is done at the nation-state level.** Stern said, though, that the study's authors are intensely interested in using the same basic framework and adapting it to undertake regional or state-level analyses.

An interviewer pointed out that education is one area where data are collected and policy made at the state level in the U.S.

There are elements of innovation and entrepreneurship that are poorly captured by GDP measurement and by innovation statistics like patents per capita, but are usefully and meaningfully captured within some of the elements of social progress. For example, Stern said, the ability to live where you want within a country, to express your own views and to choose your own path in life are very important inputs to an environment in which innovation and entrepreneurship thrive. Those factors are often given short shrift by economists and policymakers.

The study found no direct, tightly linked correlation between publicly funded inputs and social progress outputs. An interviewer commented that the study seemed to show no strong relationship between social progress and the amount of government spending. Stern replied that the study looked at a variety of different inputs into the measures of social progress, such as public spending as a

share of GDP, health spending and education spending. For each country, the authors then tried to map spending by components and look at the relationship between those publicly funded inputs and the social progress outputs. "We found no direct, tightly linked correlation between those inputs and the outputs," he said.

For example, Stern said, the U.S. spends more on health care than on any other nation on earth, both overall and on a per capita basis. "And our outcomes are not particularly good," he said, pointing out that the U.S. ranks 70th in health in the study. He noted that Minnesota has a relatively low cost in health care, with relatively good outcomes. Minnesota, he said, spends 25 percent less per capita on health care than Florida, even adjusted for risk and for age, and has 20 or 25 percent better health outcomes. "Those are big, huge numbers," he said. "Even regionally within the U.S., the relationship between inputs and outputs is much weaker than we should allow as a society."

The top tier of countries on the social progress index has a much lower level of income inequity, but not necessarily wealth inequity, than the countries in the second tier, which includes the U.S. Stern cautioned, though, that the relatively uneven relationship between GDP and social progress among countries is not fully explained by controlling for income or wealth inequity. "We don't yet have the full portrait," he said, "so we didn't emphasize this relationship as a core finding. It turns out that the relationship between economic equity, social progress and economic measures like GDP is much more complex than I had anticipated." He did note that people's anger at income inequality is much more muted if they have a better level of opportunity, that is, the ability to live the lives they want to, to have basic human needs met and to be able to pursue opportunities.

The social dimensions of people's lives and whether or not those are improving have not been measured and understood nearly as well as the economic dimensions. An interviewer commented that because people in the U.S. have had high levels of social prosperity, they're not recognizing the slow decline in that prosperity. "Until this effort and a few others," Stern said, "there hasn't been a language that allows people to even understand where they are relative to others and what their relative strengths and weaknesses are. Until we measure social progress over time at the level of regions, we don't have the language that allows governments, citizens, civic groups and business to even understand how social progress is changing." His group is just starting a longer-term study looking backward at how social progress has changed over time for a selected group of countries, including the U.S.

The coming changes in technology and those we've inherited over the past several decades from the information-technology and the life-sciences revolutions bring a vast majority of people in the U.S. and in Minnesota up to a certain level, so that managing social progress as a policy matter is becoming relatively more important than economic productivity.

Higher education in the U.S. is much better than in almost every other country around the world. Stern said Minnesota has long been a leader in higher education through both its public and private colleges. He shares the concern about our current disinvestment and declining pursuit of excellence in higher education, as in California, "where they can't figure out how to fund the University of California system. While the U.S. is clearly ahead in higher education now," he said, "I worry that we're eroding its future."

The nature of technological change is changing, so the ability of innovation to overcome challenges in industries like health care and education could dramatically improve social progress. Stern gave the example of the improvements over the last 30 years in the lives of people with disabilities through policy and the technology that interacts with policy. For example, the automation of wheelchairs and requiring Braille in places like elevators have "dramatically transformed the ability of those with mobility or sight issues to participate fully in society." He said those changes might actually hurt economic growth, but most people think there is an extraordinarily high rate of return on this investment.

Places like Minnesota need to start building those institutions that develop the kind of human capital that will allow people to live meaningful lives by leading them to be productive, to be problem-solvers and to be entrepreneurial. "Social progress allows you to be more competitive than traditional economic measures would show," he said. For example, after controlling for cost and overall GDP, higher social progress leads places to be more attractive for foreign direct investment. "People are choosing to live in and invest in those regions that have produced a higher level of social progress," he said.