Our Three-decade Recession

The American quality of life has been going downhill since 1975.

Los Angeles Times - by Robert Costanza - March 10, 2008

The news media and the government are fixated on the fact that the U.S. economy may be headed into a recession -- defined as two or more successive quarters of declining gross domestic product. The situation is actually much worse. By some measures of economic performance, the United States has been in a recession since 1975 -- a recession in quality of life, or well-being.

How can this be? One first needs to understand what GDP measures to see why it is not an appropriate gauge of our national well-being.

GDP measures the total market value of all goods and services produced in a country in a given period. But it includes only those goods and services traded for money. It also adds everything together, without discerning desirable, well-being-enhancing economic activity from undesirable, well-being-reducing activity. An oil spill, for example, increases GDP because someone has to clean it up, but it obviously detracts from well-being. More crime, more sickness, more war, more pollution, more fires, storms and pestilence are all potentially positives for the GDP because they can spur an increase in economic activity.

GDP also ignores activity that may enhance well-being but is outside the market. The unpaid work of parents caring for their children at home doesn't show up in GDP, but if they decide to work outside the home and pay for child care, GDP suddenly increases. And even though $1 in income means a lot more to the poor than to the rich, GDP takes no account of income distribution.

In short, GDP was never intended to be a measure of citizens' welfare -- and it functions poorly as such. Yet it is used as a surrogate appraisal of national well-being in far too many circumstances.

The shortcomings of GDP are well known, and several researchers have proposed alternatives that address them, including William Nordhaus' and James Tobin's Measure of Economic Welfare, developed in 1972; Herman Daly's and John Cobb's Index of Sustainable Economic Welfare, developed in 1989; and the Redefining Progress think tank's more recent variation, the Genuine Progress Indicator. Although these alternatives -- which, like GDP, are measured in monetary terms -- are not perfect and need more research and refinement, they are much better approximations to a measure of true national well-being.

The formula for calculating GPI, for instance, starts with personal consumption expenditures, a major component of GDP, but makes several crucial adjustments. First, it accounts for income distribution. It then adds positive contributions that GDP ignores, such as the value of household and volunteer work. Finally, it subtracts things that are well-being-reducing, such as the loss of leisure time and the costs of crime, commuting and pollution.

While the U.S. GDP has steadily increased since 1950 (with the occasional recession), GPI peaked about 1975 and has been relatively flat or declining ever since. That's consistent with life-satisfaction surveys, which also show flat or dropping scores over the last several decades.

This is a very different picture of the economy from the one we normally read about, and it requires different policy responses. We are now in a period of what Daly -- a former World Bank economist now at the University of Maryland -- has called "uneconomic growth," in which further growth in economic activity (that is, GDP) is actually reducing national well-being.

How can we get out of this 33-year downturn in quality of life? Several policies have been suggested that might be thought of as a national quality-of-life stimulus package.

To start, the U.S. needs to make national well-being -- not increased GDP -- its primary policy goal, funding efforts to better measure and report it. There's already been some movement in this direction around the world. Bhutan, for example, recently made "gross national happiness" its explicit policy goal. Canada is developing an Index of Well-being, and the Australian Treasury considers increasing "real well-being," rather than mere GDP, its primary goal.

Once Americans' well-being becomes the basis for measuring our success, other reforms should follow. We should tax bads (carbon emissions, depletion of natural resources) rather than goods (labor, savings, investment). We should recognize the negative effects of growing income disparities and take steps to address them.

International trade also will have to be reformed so that environmental protection, labor rights and democratic self-determination are not subjugated to the blind pursuit of increased GDP.

But the most important step may be the first one: Recognizing that the U.S. is mired in a 33-year-old quality-of- life recession and that our continued national focus on growing GDP is blinding us to the way out.

Robert Costanza is the director of the Gund Institute for Ecological Economics at the University of Vermont.

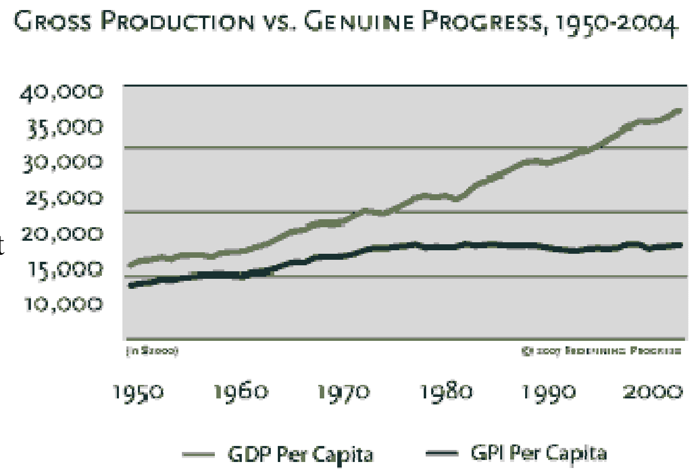
http://www.latimes.com/news/opinion/la-oe-costanza10mar10,0,5656929.story?track=ntothtml

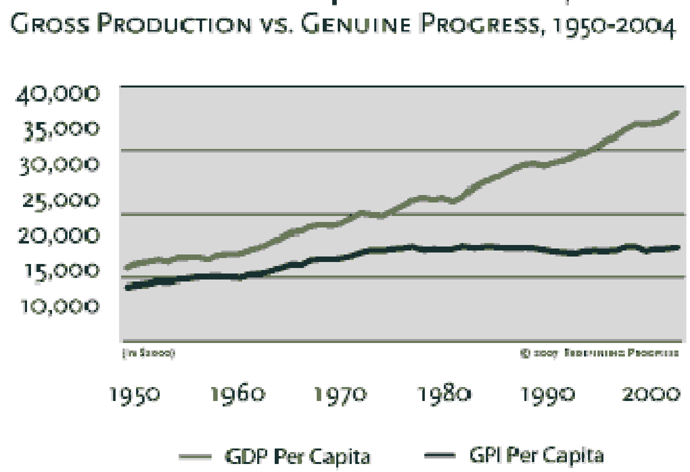
Genuine Progress Indicator

We believe that if policymakers measure what really matters to people—health care, safety, a clean environment, and other indicators of well-being—economic policy would naturally shift towards sustainability.

Redefining Progress created the Genuine Progress Indicator (GPI) in 1995 as an alternative to the gross domestic product (GDP). The GPI enables policymakers at the national, state, regional, or local level to measure how well their citizens are doing both economically and socially.

Economists, policymakers, reporters, and the public rely on the GDP as a shorthand indicator of progress; but the GDP is merely a sum of national spending with no distinctions between transactions that add to well-being and those that diminish it.





The GPI is one of the first alternatives to the GDP to be vetted by the scientific community and used regularly by governmental and non-governmental organizations worldwide. Redefining Progress advocates for the adoption of the GPI as a tool for sustainable development and planning.

On a yearly basis, Redefining Progress updates the U.S. Genuine Progress Indicator to document a more truthful picture of economic and social progress. Our latest update, which plots GPI accounts from 1950 to 2004, shows that economic growth has been stagnant since the 1970s.

How We Measure Progress

The GPI starts with the same personal consumption data that the GDP is based on, but then makes some crucial distinctions. It adjusts for factors such as income distribution, adds factors such as the value of household and volunteer work, and subtracts factors such as the costs of crime and pollution.

Because the GDP and the GPI are both measured in monetary terms, they can be compared on the same scale. Measurements that make up the GPI include:

Income Distribution

Both economic theory and common sense tell us that the poor benefit more from a given increase in their income than do the rich. Accordingly, the GPI rises when the poor receive a larger percentage of national income, and falls when their share decreases.

Housework, Volunteering, and Higher Education

Much of the most important work in society is done in household and community settings: childcare, home repairs, volunteer work, and so on. The GDP ignores these contributions because no money changes hands. The GPI includes the value of this work figured at the approximate cost of hiring someone to do it. The GPI also takes into account the non-market benefits associated with a more educated population.

Crime

Crime imposes large economic costs on individuals and society in the form of legal fees, medical expenses, damage to property, and the like. The GDP treats such expenses as additions to well-being. By contrast, the GPI subtracts the costs arising from crime.

Resource Depletion

If today's economic activity depletes the physical resource base available for tomorrow, then it is not creating well-being; rather, it is borrowing it from future generations. The GDP counts such borrowing as current income. The GPI, by contrast, counts the depletion or degradation of wetlands, forests, farmland, and nonrenewable minerals (including oil) as a current cost.

Pollution

The GDP often counts pollution as a double gain: Once when it is created, and then again when it is cleaned up. By contrast, the GPI subtracts the costs of air and water pollution as measured by actual damage to human health and the environment.

Long-Term Environmental Damage

Climate change, ozone depletion, and nuclear waste management are long-term costs arising from the use of fossil fuels, chlorofluorocarbons, and atomic energy, respectively. These costs are unaccounted for in ordinary economic indicators. The GPI treats as costs the consumption of certain forms of energy and of ozone-depleting chemicals. It also assigns a cost to carbon emissions to account for the catastrophic economic, environmental, and social effects of global warming.

Changes in Leisure Time

As a nation becomes wealthier, people should have more latitude to choose between work and free time for family or other activities. In recent years, however, the opposite has occurred. The GDP ignores this loss of free time, but the GPI treats leisure as most

Americans do—as something of value. When leisure time increases, the GPI goes up; when Americans have less of it, the GPI goes down.

Defensive Expenditures

The GDP counts as additions to well-being the money people spend to prevent erosion in their quality of life or to compensate for misfortunes of various kinds. Examples are the medical and repair bills from automobile accidents, commuting costs, and household expenditures on pollution control devices such as water filters. The GPI counts such "defensive" expenditures as most Americans do: as costs rather than as benefits.

Lifespan of Consumer Durables & Public Infrastructure

The GDP confuses the value provided by major consumer purchases (e.g., home appliances) with the amount Americans spend to buy them. This hides the loss in well-being that results when products wear out quickly. The GPI treats the money spent on capital items as a cost, and the value of the service they provide year after year as a benefit. This applies both to private capital items and to public infrastructure, such as highways.

Dependence on Foreign Assets

If a nation allows its capital stock to decline, or if it finances consumption out of borrowed capital, it is living beyond its means. The GPI counts net additions to the capital stock as contributions to well-being, and treats money borrowed from abroad as reductions. If the borrowed money is used for investment, the negative effects are canceled out. But if the borrowed money is used to finance consumption, the GPI declines.

Does GDP really capture economy's health?

A Senate hearing Wednesday will revisit the debate on the economy's best known measure.

By Mark Trumbull | Staff writer of The Christian Science Monitor

from the March 12, 2008 edition

E-mail *Print* *Letter to the Editor* *Republish* *del.icio.us* *digg*

This feature requires a newer version of Macromedia Flash Player and javascript-enabled browser.

Reporter Mark Trumbull discusses a Senate hearing on the US gross domestic product.

- Photos
- World
- Space

PHOTOS Photos of the Day

The best photos from March 13, 2008.

America's so-called gross domestic product is an enormous number and an important number, but is it the *right* number?

That's the question that comes before the US Senate Wednesday in an unusual hearing on the far from perfect science of measuring economic activity.

Few numbers have the cachet of GDP. The announcement of its growth rate each quarter provides a speedometer of economic growth or – perhaps in the next few months – recession.

And few numbers have the scale of the GDP. By latest tally, the annual production of goods and services in the United States has grown to about $14 trillion.

Yet economists readily concede that GDP is not a one-number-fits-all view of what's going on. Some suggest changes to make it more useful and more accurate. Even at its best, they say, it should be used more as a gauge of activity than of overall progress.

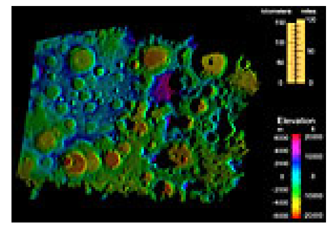
"What we need to end up with is two separate accounts [of the economy] – a market price account and a quality of life account," says Rob Atkinson, an economist in Washington.

Creating such a system would be controversial and subjective, he says. "But still it is an opportunity to think more accurately about our economic well-being."

AUDIO SLIDE SHOW Voices of the 'Putin Generation'

Young Russians speak out ahead of Sunday's vote

More world news



SPACE NASA unveils new lunar map

The latest, most detailed map offers the best view yet of the lunar south pole, considered a prime target for a manned landing after 2020.

More sci/tech

Most-viewed Stories
(for 03/14/2008)

Fed's bold $200 billion move
(03/13/2008)

Protection for home schooling
(03/12/2008)

After Spitzer: Paterson brings political acumen to New York politics
(03/13/2008)

Home-schoolers reel from California court blow
(03/10/2008)

A new 'neighborhood watch': Azeri horsemen guard BP pipeline
(03/12/2008)

The GDP numbers, he explains, are rooted in the economy of the marketplace – totaling up the dollar value of big activities such as business investment and consumer spending, as well as government activity. It's useful in as far as it goes.

But economists point to several shortcomings: It focuses on aggregate numbers, not individual experience. Much useful activity that's not a money-based transaction is left out. And the report is a summation of quantity, not quality.

"Not everything that is in the monetary economy is of equal value," says Mr. Atkinson, who heads the Information Technology and Innovation Foundation (ITIF), a public policy research group.

Spending money to clean up an oil spill in Alaska, he says, is not the same as building a faster Internet connection. One is an investment in a more productive future, while the other is an effort that, while necessary, would have been best avoided in the first place.

Economists see room to improve lots of numbers tracked by the government, not just GDP. But this overview number has long faced criticism.

Wednesday's hearing, in fact, comes 40 years after Sen. Robert F.

Kennedy delivered a speech that, in poetic phrases, called the numbers into question.

"It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country," Senator Kennedy said in 1968. "It measures everything, in short, except that which makes life worthwhile."

Some economists say the critique is not wholly fair. If a $5,000 computer offers a 10-fold improvement on a $500 computer, then quality shows up when those purchases are counted as consumer spending. And much learning goes into making those computers.

But Kennedy's overall point is as relevant today as then – some say maybe more so given that the system was developed for an industrial era. Today, the economy is increasingly service oriented. And with growing concern about climate change and species extinction, the impact of economic activity on the environment – something not measured by GDP – may be increasingly important for human survival.

"If the country has natural resources and you cut the forest down, that increases GDP," says Yoram Bauman, who teaches environmental economics at the University of Washington in Seattle. "But it's not clear that the wealth of society has increased, because the value was there all along in the trees."

Living standards, for many people, also include the gratification of a home-cooked meal. Yet unpaid work at home isn't counted as part of GDP, even though it produces real goods and services.

Various alternatives to measures of economic progress have been formulated. The United Nations tracks various indicators of human progress as a country-by-country gauge of living standards.

Private sector organizations have developed other measures, such as the index of sustainable economic welfare (ISEW) or the genuine progress indicator (GPI).

For drama, Wednesday's panel in a Senate subcommittee on interstate commerce may not beat congressional hearings with accused baseball players or embattled mortgage lenders. But it could kick-start some fresh economic thought.

"If I had 10 hours to spend lobbying for something, I would lobby for a carbon tax," not a revise of GDP, says Mr. Bauman. But better stats wouldn't hurt.

Related Stories

As spending ebbs, Fed set to act
10/30/2007