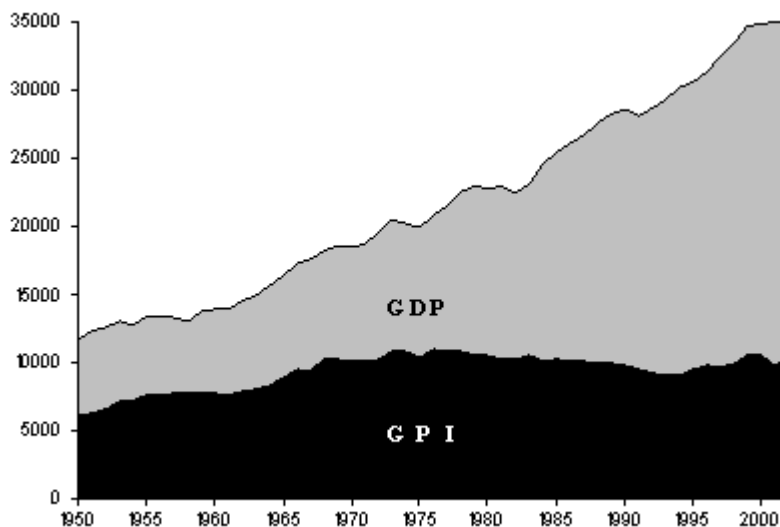


What's Wrong with the GDP as a Measure of Progress?

You've seen the headlines, "GDP Up!" Good news, right? Not really. The gross domestic product simply adds up all the money we spend, and calls the results economic growth. Yet for years economists, policymakers, reporters, and the public have relied on the GDP as a shorthand indicator of progress.

In 1995, Redefining Progress created a more accurate measure of progress called the Genuine Progress Indicator (GPI). It starts with the same accounting framework as the GDP, but then makes some crucial distinctions: It adds in the economic contributions of household and volunteer work, but subtracts factors such as crime, pollution, and family breakdown. We continue to update the GPI on a yearly basis to document a more truthful picture of economic progress.

Gross Production vs. Genuine Progress, 1950 to 2002



Per Capita (\$2000)

Since its introduction during World War II as a measure of wartime production capacity, the gross national product (now routinely measured as gross domestic product -- GDP) has become the nation's foremost indicator of economic progress. It is now widely used by policymakers, economists, international agencies and the media as the primary scorecard of a nation's economic health and well-being.

Yet the GDP was never intended for this role. It is merely a gross tally of products and services bought and sold, with no distinctions between transactions that add to well-being, and those that diminish it. Instead of separating costs from benefits, and productive activities from destructive ones, the GDP assumes that every monetary transaction adds to well-being by definition. It is as if a business tried to assess its

financial condition by simply adding up all "business activity," thereby lumping together income and expenses, assets and liabilities.

On top of this, the GDP ignores everything that happens outside the realm of monetized exchange, regardless of its importance to well-being. The crucial economic functions performed in the household and volunteer sectors go entirely ignored. The contributions of the natural habitat in providing the resources that sustain us go unreckoned as well. As a result, the GDP not only masks the breakdown of the social structure and natural habitat; worse, it actually portrays such breakdown as economic gain.

I. GDP Treats Crime, Divorce & Natural Disasters as Economic Gain

II. GDP Ignores the Nonmarket Economy of Household & Community

III. GDP Treats the Depletion of Natural Capital as Income

IV. GDP Increases with Polluting Activities & Again with Clean-Ups

V. GDP Takes No Account of Income Distribution

VI. GDP Ignores the Drawbacks of Living on Foreign Assets

Contents of the Genuine Progress Indicator (GPI)

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

I. Crime & Family Breakdown

Social breakdown 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 and divorce.

II. Household & Volunteer Work

Much of the most important work in society is done in household and community settings: childcare, home repairs, volunteer work, and so on. These contributions are ignored in the GDP because no money changes hands. To correct this omission, the GPI includes, among other things, the value of household work figured at the approximate cost of hiring someone to do it.

III. Income Distribution

A rising tide does not necessarily lift all boats -- not if the gap between the very rich and everyone else increases. 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.

IV. Resource Depletion

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

V. Pollution

The GDP often counts pollution as a double gain; once when it's 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.

VI. Long-Term Environmental Damage

Climate change and the management of nuclear wastes are two long-term costs arising from the use of fossil fuels and atomic energy. These costs do not show up in ordinary economic accounts. The same is true of the depletion of stratospheric ozone arising from the use of chlorofluorocarbons. For this reason, the GPI treats as costs the consumption of certain forms of energy and of ozone-depleting chemicals.

VII. Changes in Leisure Time

As a nation increases in wealth, people should have increasing latitude to choose between more work and more 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.

VIII. Defensive Expenditures

The GDP counts as additions to well-being the money people spend just 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.

IX. Lifespan of Consumer Durables & Public Infrastructure

The GDP confuses the value provided by major consumer purchases (e.g., home appliances) with the amounts Americans spend to buy them. This hides the loss in well-being that results when products are made to wear out quickly. To overcome this, 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.

X. Dependence on Foreign Assets

If a nation allows its capital stock to decline, or if it finances its 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.

Adapted from the *Redefining Progress* website at
<http://www.redefiningprogress.org/newprograms/sustIndi/gpi/index.shtml>