

Measuring Genuine Progress

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EXECUTIVE SUMMARY

Although there is a broad consensus that security, environmental quality, equity and other values are essential to well being and prosperity, public policies frequently undermine those values. One reason is that we measure our progress according to a narrow set of market statistics based on the GDP. Economic growth rates are used to determine how “healthy” our economy is. In this system, the more money we spend, the “better off” we are. According to the principal architect of national income accounting, Simon Kuznets, this is a serious misuse of the GDP, which cannot actually tell us if we are “better off”.

1. The GDP does not distinguish economic activities that bring benefit from those that cause harm. In fact, more crime, pollution, gambling, sickness, divorce, accidents and war all make the economy grow.
2. Unpaid work that really does contribute to well being, like voluntary community service, child-rearing and household production, are ignored and unvalued.
3. The depletion of natural resources, on which wealth is ultimately based, is counted in the GDP as growth and “progress.”
4. Longer work hours contribute to economic growth, but no value is assigned to free time.
5. The economy can grow even if inequality increases, as has been the case in the USA.

Although we have more possessions, we are not necessarily “better off” as a result of decades of economic growth. We have three times the crime rate of the 1960s, we are more time stressed, deeper in debt and less secure in our jobs. Child poverty is up 60% since 1989. Our environment is seriously stressed and our resources more depleted. Less than half of Americans say they are happier than their parents.

There is, therefore, an urgent need for better and more accurate measures of progress. The Nova Scotia Genuine Progress Index, currently under construction, integrates 20 social, economic and environmental variables into a comprehensive and policy-relevant measure of sustainable development.

Natural resources are explicitly valued; unpaid household work and voluntary work are measured; and costs are distinguished from benefits. The GPI subtracts rather than adds the costs of crime, pollution and accidents. The index goes up if we have more free time, greater equality, and a cleaner environment. It therefore more accurately reflects actual changes in our quality of life.

Measuring progress in this way has significant policy implications, examples of which are given in the *Made to Measure Symposium* paper. The cusp of the new millennium is a rare historical moment in which it is actually possible to shift the view from the short-term materialist assumptions to which we are accustomed to new measures of progress that reflect our genuine vision of the society we want to inhabit and the legacy we want to leave our children.

INTRODUCTION

There is a remarkable consensus, one that crosses all political boundaries, on the principles of what constitutes a decent society. We all value a clean environment. We all want to live in a peaceful and safe society. We need good physical health, strong communities, and free time to relax and develop our potential. We want economic security and less poverty. A society based on these principles would provide a good framework for spiritual practice and encourage us to become wiser, freer and more caring.

No political party officially favors greater insecurity, a degraded environment, or more stress, crime, poverty and inequality. Why then do we see policies that promote those very outcomes? Why are we unable to create the kind of society we genuinely want to inhabit in the new millennium? Why can we not order our public policies to accord with our shared values and human needs?

One important reason is that we have been getting the wrong message from our current measures of progress, in particular from that most watched of economic indicators, the Gross Domestic Product. All of us—politicians, economists, journalists and the general public—have become hooked on its equation of economic growth with well being and prosperity. Indeed, there is probably no more pervasive and dangerous myth in our society than the materialist assumption that “more is better”.

Look at the language we use: When our economy is growing rapidly, it is called “robust,” “dynamic” and “healthy.” When people spend more money, “consumer confidence” is “strong.” By contrast, “weak” or “anemic” growth signals “recession,” and even “depression.” Increased car sales signal a “buoyant recovery.” The more we produce and spend, the more the Gross Domestic Product

(GDP) grows and, by implication, the better off we are.

This was not the intention of those who created the GDP. Simon Kuznets, its principal architect, warned 40 years ago: “The welfare of a nation can scarcely be inferred from a measurement of national income.” Our growth statistics were never meant to be used as a measure of progress, as they are today.

In fact, activities that degrade our quality of life, such as crime, pollution and addictive gambling, all make the economy grow. One of the fastest growing sectors of the American economy is imprisonment, growing at an annual rate of 6.2% a year throughout the 1990s. The O.J. Simpson trial alone added \$200 million to the U.S. economy, and the Oklahoma City explosion and Littleton massacre fueled the booming U.S. security industry, which now adds \$40 billion a year to the economy, with most sales currently going to schools. Is this our model of a “robust” and “healthy” economy?

Gambling, a \$50 billion a year business, is another rapid growth industry. Divorce adds \$20 billion a year to the U.S. economy and car crashes add another \$57 billion. Prozac sales have quadrupled since 1990 to more than \$3 billion. A sign of progress? Overeating contributes to economic growth many times over, starting with the value of the excess food consumed and the advertising needed to sell it. Then the diet and weight loss industries add \$32 billion a year more to the U.S. economy, and obesity-related health problems another \$50 billion.

Similarly, toxic pollution, sickness, stress and war all make the economy grow. The Exxon Valdez contributed far more to the U.S. economy by spilling its oil than if it had delivered the oil safely to port, because all the cleanup costs, lawsuits and media coverage added to the growth statistics. The Yugoslav

war has stimulated the economies of the NATO countries to the tune of \$60 million a day, and our economies will benefit even more by rebuilding what we destroy.

Measuring progress by the sum total of economic activity is like a policeman adding up all the street activity he observes. The lady walking her dog, the thief stealing the car, the children playing on the corner, the thug hitting someone with a lead pipe—all are recorded equally. Our growth statistics make no distinction between economic activity that contributes to our well being and that which causes harm. Growth is simply a quantitative increase in the physical scale of the economy, and tells us nothing about our actual well being and progress.

Ironically, while we are so busy counting everything on which we spend money, we assign no value to vital unpaid activities that really do contribute to our well being. Voluntary community service, the backbone of civil society, is not counted or valued in our measures of progress because no money is exchanged. And even though household work and raising children are more essential to quality of life than much of the work done in offices, factories and stores, they have no value in the GDP. We value the booming child care industry but we do not count unpaid child care, and so we do not notice that parents are spending less time with their children than ever before. Is this a sign of progress?

HAS GROWTH MADE US “BETTER OFF”?

Are we “better off” as a result of decades of continuous economic growth? Certainly many of us have bigger houses and more cars. Are we happier? A recent U.S. poll found that 72% of Americans had more possessions than their parents, but only 47% said they were happier than their parents. We are also less peaceful and secure, three times more likely to be vic-

tims of crime than our parents a generation ago. We are more time-stressed, and our jobs are more insecure. Our debt levels are higher and real incomes are declining for most. Child poverty is increasing and the gap between rich and poor is widening. Economists predict that, for the first time since the Industrial Revolution, the next generation will be worse off than the present one.

More dangerously, blind growth has undermined our natural resources, produced massive pollution, destroyed plant and animal species at an unprecedented rate, and changed the climate in a way that now threatens the planet. The more rapidly we deplete our natural resources and the more fossil fuels we burn, the faster the economy grows and, therefore, the “better off” we think we are. Because we assign no value to our natural capital, we actually count its depreciation as gain, like a factory owner selling off his machinery and counting it as profit.

WHAT WE COUNT IS WHAT WE VALUE

What we measure and count quite literally tells us what we value as a society, and if we do not count our non-monetary and non-material assets, we effectively discount and devalue them. If a teacher tells her students that a term paper is very important, but it’s worth nothing in the final grade, the real message is that the paper has no value, and the students will devote their attention to the final exam which “counts” for something.

Similarly, what we don’t measure in our central accounting mechanism will be effectively sidelined in the policy arena. We may pay pious public homage to environmental quality and to social and spiritual values. But if we count their degradation as progress in our growth measures, we will continue to send misleading signals to policy makers and public alike, to blunt effective remedial action, and to distort

policy priorities. Until we explicitly value our free time, voluntary community service, parental time with children, and natural resource wealth, they will never receive adequate attention on the public policy agenda.

The obsession with growth and its confusion with genuine development has led us down a dangerous and self-destructive path. It is doubtful that we will leave our children a better legacy until we cut through the myth that “more” means “better,” until we stop gauging our well being and prosperity by how fast the economy is growing, and until we stop misusing the GDP as a measure of progress.

Just before he was assassinated 30 years ago, Robert Kennedy put it this way:

The Gross National Product includes air pollution and advertising for cigarettes, and ambulances to clear our highways of carnage. It counts special locks for our doors, and jails for the people who break them. The GNP includes the destruction of the redwoods and the death of Lake Superior. It grows with the production of napalm and missiles and nuclear warheads.

And if GNP includes all this, there is much that it does not comprehend. It does not allow for the health of our families, the quality of their education, or the joy of their play. It is indifferent to the decency of our factories and the safety of our streets alike. It does not include the beauty of our poetry or the strength of our marriages, or the intelligence of our public debate or the integrity of our public officials.

A BETTER WAY TO MEASURE PROGRESS

What is urgently needed are measures of well being, prosperity and progress that explicitly value the non-material assets that are the true basis of our wealth, including the strength of

our communities, our free time, the quality of our environment, the health of our natural resources, and our concern for others. The means to do so exist.

In fact, tremendous progress has been made in the last twenty years in natural resource accounting, social indicators, time-use surveys, environmental quality measures and other means of assessing well being and quality of life. We are capable of measuring our progress in a way that accords with our shared values and lets us know whether we are moving towards the society we want to create.

After three California researchers developed a Genuine Progress Indicator in 1995, incorporating twenty-six social, economic and environmental variables, four hundred leading economists, including Nobel laureates, jointly stated:

Since the GDP measures only the quantity of market activity without accounting for the social and ecological costs involved, it is both inadequate and misleading as a measure of true prosperity. Policy makers, economists, the media, and international agencies should cease using the GDP as a measure of progress and publicly acknowledge its shortcomings. New indicators of progress are urgently needed to guide our society. The GPI is an important step in this direction.

Here in Canada, GPI Atlantic, a non-profit research group, is now developing a Genuine Progress Index for the province of Nova Scotia that Statistics Canada has designated as a pilot project for the country. It is designed as a practical policy tool that is easy to maintain and replicate, that can accurately measure sustainable development, and that can provide much needed information to policy makers about issues that are currently hidden by our economic statistics.

The Nova Scotia GPI assigns explicit value to our natural resources, including our soils, forests, fisheries and non-renewable energy sources, and assesses the sustainability of our harvesting practices, consumption habits and transportation systems. It measures and values our unpaid voluntary and household work, and it counts crime, pollution, greenhouse gas emissions, road accidents and other liabilities as economic costs, not gains as at present.

The index goes up if our society is becoming more equal, if we have more free time, and if our quality of life is improving. It counts our health, our educational attainment and our economic security. It attempts, in short, to measure that which makes life worthwhile. It is common-sense economics that corresponds with the realities of our daily lives as we actually experience them.

COSTS AND BENEFITS

Unlike the GDP, the GPI distinguishes economic activities that produce benefit from those that cause harm. For example, more crime makes the economy grow, while having a more peaceful society actually shows up as a disadvantage in the GDP. By contrast, the GPI regards a peaceful and secure society as a profound social asset. Unlike the GDP, lower crime rates make the GPI go up, and crime costs are subtracted rather than added in assessments of prosperity.

The GPI takes a similar approach to road accidents, toxic pollution and greenhouse gas emissions, which are also seen as costs rather than benefits. Like crime and resource depletion, they are areas of the economy where more growth is clearly not desirable. By incorporating costs directly into the economic accounting structure, the GPI can help policy makers to identify investments that produce lower social and environmental costs to society. Gambling, clear-cutting and other growth industries might receive less government support if social

costs were counted, and sustainable practices might receive more encouragement.

For example, GPI Atlantic recently found that a 10% shift from truck to rail freight would save Nova Scotian taxpayers \$11 million a year when the costs of greenhouse gas emissions, road accidents and road maintenance costs are included. Telecommuting just two days per week would save \$2,200 annually per employee when travel time, fuel, parking, accident, air pollution and other environmental and social costs are included. All this spending is currently counted as “progress” by the GDP, while telecommuting and car-pooling slows GDP growth. By contrast, the full cost-benefit accounting method of the GPI would lend more support to taxation policies and subsidy incentives that support mass transit alternatives and other more sustainable practices.

VALUING NATURAL RESOURCES

No matter how many cars we have in the driveway or how many possessions we accumulate, the environment will not tolerate the growth illusion, even if we fail to see through it. Valuing natural resources provides an accounting framework that recognizes inherent limits to our economic activity and values balance and equilibrium.

In the Genuine Progress Index, natural resources are valued as finite capital stocks, subject to depreciation like produced capital. Genuine progress is measured by our ability to live off the income or “services” generated by our resources, without depleting the capital stock that is the basis of wealth both for our children and ourselves.

The GPI acknowledges the full range of ecological and social services provided by these resources. The GPI forestry account, for example, counts not only timber production, but also the value of forests in protecting watersheds, habitat and biodiversity, guarding

against soil erosion, regulating climate and sequestering carbon, and providing for recreation and spiritual enjoyment. Healthy soils and the maintenance of multi-species, multi-aged forests in turn provide multiple economic benefits by enhancing timber productivity, increasing the economic value of forest products, protecting against fire, disease and insects, and supporting the burgeoning ecotourism industry.

TIME IS NOT MONEY

We all have just 24 hours in our day and a limited life span. How we pass that time is a measure of our well being, quality of life, and contribution to society. The GPI uses time-use surveys to measure and value time over a full 24-hour period and to assess the balance between its alternative uses. Measuring time as time, rather than as money, also cuts through the myth of limitless growth.

According to current accounting methods, the more hours we work for pay, the more the GDP grows and the more we “progress”. In a recent interview, a Fortune 500 chief executive officer stated that he works from 6 a.m. to 10 p.m. every day and has no time for anything else except sleep. By conventional standards, his \$4 million annual salary makes him rich. According to the GPI, when family time, voluntary service and free time are all measured and valued, the CEO may be leading an impoverished lifestyle. Aristotle recognized 2,400 years ago that leisure was a prerequisite for contemplation, informed discussion, participation in political life, and genuine freedom. It is also essential for relaxation and health, for spiritual practice, and for a decent quality of life. But the loss of precious free time is unvalued in our standard measures of progress.

The policy implications of valuing time are profound. For example, GPI Atlantic found that Nova Scotians have the highest rate of

voluntary activity in Canada, giving 134 million hours a year, the equivalent of 81,000 jobs, or \$1.9 billion worth of services, a reservoir of generosity complete invisible in our conventional accounts. Unmeasured and unvalued, the voluntary sector has not received the support it needs to do its work well. An increase in paid work hours has produced a 7% decline in volunteer service hours in the last 10 years, a shift unnoticed by policy-makers but registered for the first time in the GPI. Counting only monetary transactions, the GDP had simply registered longer paid work hours as progress.

Measuring unpaid household work shines the spotlight on the time stress of working parents struggling to juggle job and household responsibilities, and on the need for family-friendly work arrangements and flexible work hours. The modern work place has not yet adjusted to the reality that women have doubled their rate of participation in the paid work force. Working mothers put in an average of eleven hours a day of paid and unpaid work on weekdays, and fifteen hours more of unpaid work on weekends. Measuring housework also raises important pay equity issues: work traditionally performed by women in the household and regarded as “free” has been devalued in the market economy, resulting in significant gender pay inequities for child care workers and others.

EQUITY AND JOB CREATION

Millions of Americans have been left behind by the growth spurt in the U.S. economy. The U.S. Census Bureau reports that income inequality has risen by 18% for all U.S. households since 1968, and by over 23% for families. The richest 1% of American households now owns 40% of the national wealth, while the net worth of middle class families has fallen steadily through the 1990s due to rising indebtedness. Bill Gates alone owns more wealth than the bottom 45% of U.S. households combined. Is this progress?

There is no guarantee that the tide of economic growth lifts all boats, and the evidence indicates that the opposite is frequently the case. For this reason the GPI explicitly values increased equity and job security as benchmarks of genuine progress. Indeed, Statistics Canada recently recognized that concern for equity is inherent in any measure of sustainable development, because once limits to growth are accepted, the issue becomes fair distribution rather than increased production. If everyone in the world consumed resources at our level, we would require four additional planets earth.

In North America we are conditioned to believe that job creation is contingent on growth. Instead, we might learn from some European countries that have created more jobs by reducing and redistributing the existing workload. The Netherlands, for example, has a 3.4% unemployment rate and also the lowest annual work hours of any industrialized country. In that country, part-time work is legally protected, with equal hourly wages and pro-rated benefits. France has introduced a 35-hour work week. Danes get five weeks of annual vacation. Sweden provides generous parental and educational leaves that create job openings. One creative experiment gave parents the option of taking the summer months off to be with their children, with guaranteed re-entry to the work force in September, thus providing summer jobs for university students and cost savings to employers.

Reducing and redistributing work hours can also improve the quality of life by creating more free time. Time use surveys show that the Danes average eleven hours more free time per week than Canadians and Americans. By counting underemployment and overwork as economic costs, and giving explicit value to equity and free time, the GPI can point to a range of intelligent job creation strategies that are not dependent on more growth.

SHIFTING THE VIEW

None of this means that there should be no growth of any kind. Some types of economic growth clearly enhance well being, increase equity and protect the environment. There is vital work to be done in our society: raising children, caring for those in need, restoring our forests, providing adequate food and shelter for all, enhancing our knowledge and understanding, and strengthening our communities. But we will never shift our attention to the work that is needed if we fail to value our natural resources, our voluntary service and our child-rearing, and if we place no value on equity, free time and the health of our communities.

We have little time left to abandon the dogma of economic growth and its bankrupt measures of well being before the environment makes the decision for us at tremendous cost. We can still choose to enter the new millennium sanely, valuing the true strengths that we have in abundance. We can begin to fashion more self-reliant and self-sufficient forms of community economic development that provide a real alternative to the globalization that puts our destiny in the hands of forces beyond our control. Knowing that more possessions are not the key to happiness and well being, we can still take back our future, and perhaps live a little more simply.

The cusp of the millennium is a rare moment in history when a practical long-term vision can actually overpower our habitual short-term preoccupations. The time has never been better to contemplate the legacy we are leaving our children and the society we want to inhabit in the new millennium. It is a moment that invites us to lay the foundations of a genuinely decent society for the sake of our children and all the world's inhabitants.