LIVING STANDARDS

GDP not the full measure of economic health

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Even as Canada's economy has clawed its way back to respectable growth in the slow, halting recovery from the Great Recession, many Canadians couldn't escape the feeling that they really weren't getting ahead at all. New research suggests their feeling may be well justified.

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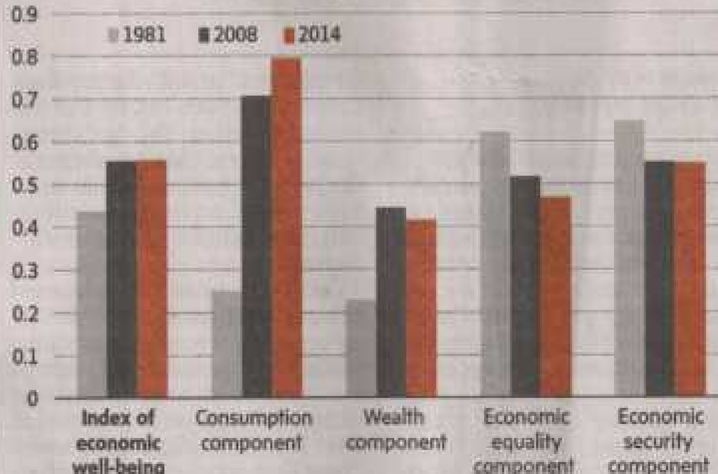
OFF THE CHART

Index of Economic Well-Being (IEWB) and component scores



JOHN SOPINSKI/THE GLOBE AND MAIL | SOURCE: CENTRE FOR THE STUDY OF LIVING STANDARDS

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Parkinson: As GDP rebounds, well-being stagnates

The Centre for the Study of Living Standards (CSLS), a respected Canadian economic research institution, published a study Wednesday on Canada's performance on the Index of Economic Well-being, a gauge of the country's economic success that the centre has been using since 1998. It is an attempt to reach beyond the most common yardstick of the economy's growth – namely, gross domestic product – to provide a better measure of "access to resources needed for a decent standard of living."

In GDP terms, it does look like Canada is generally gaining traction. Statistics Canada said this week that real GDP in the first quarter rose at an annualized rate of 2.4 per cent, the best in more than a year. The Organization for Economic Co-operation and Development issued a fresh economic outlook Wednesday, forecasting that Canada's GDP growth will accelerate from 1.2 per cent last year to 1.7 per cent this year, and 2.2 per cent next year. Canada's GDP growth since the 2008-09 recession has consistently been among the best in the Group of Seven, and has outpaced the OECD average every year but one (last year).

In a challenging time, we're doing better than most. Right? Not so, the CSLS says. "Since 2008, economic well-being, as represented by the Index of Economic Well-being [IEWB], has virtually stagnated in Canada," CSLS said in the releasing of the report. The index rose a puny average of 0.09 per cent annually from 2009 through 2014 – a fraction of its 1.41-per-cent average annual growth from 2000 to 2008.

The IEWB is a recognition that, while GDP is one measure of an economy's success, it's an imperfect measure of the success of the people within that economy. Economy-wide spending may increase, companies may make more money, national wealth may grow – but that doesn't necessarily mean that the typical Canadian is better off. And if the people in an economy aren't thriving, the sustainability of economic health is ultimately at risk.

The index is made up of four "domains of economic welfare": per-capita consumption, per-capita wealth, economic equality and economic security. Some of these are critical components of GDP. Others, such as the measures of equality and security, tap into the kinds of unease that can grip individuals and temper their confidence even when the more straightforward measures of growth are improving. And the study found that, since the recession, the only component of the IEWB to have shown any growth at all has been consumption. The extended period of ultralow interest rates in the post-recession period, which has reduced the costs of debt-financed consumption (especially in the housing sector), has certainly been a major contributor to this component of well-being growth – as, indeed, it has been critical to the country's GDP recovery.

But the less conventional measures of the economy's health are the reason Canadians' economic well-being has stalled. CSLS said its wealth, equality and security measures have all declined since the recession.

It's notable that, before the recession, Canada's well-being growth was driven in large part by increased wealth – which reflected both hefty capital investment and surging values of the country's natural resources. It underlines how the stagnation of capital investment in the country, particularly now that the oil shock has devastated spending in the resources sector, removes a major component of wealth generation that not only propels GDP growth, but contributes to Canadians' capacity to improve their economic lot.

Indeed, wealth, equality and security have all been linked to productivity. And the slowdown in productivity growth is one of the biggest hurdles facing the global economy, as it faces a sustained slow-growth rut and an aging work force throughout most of the world's advanced economies. It's a problem Canada shares.

As OECD chief economist Catherine Mann pointed out in a statement in conjunction with the organization's global economic outlook Wednesday, precarious employment and rising income inequality discourage consumption; the resulting slow demand discourages productivity-enhancing business spending and innovation investment.

"Negative feedback loops are at work," she said.

In this light, well-being indicators aren't just touchy-feely alternatives to traditional economic gauges to be embraced only by those on the political left who want to tax the rich and redistribute to the poor. They may be getting at the root of the world's "low-growth trap," as Ms. Mann calls it. If policy makers in Canada and elsewhere want to solve this growth puzzle, broader measures of well-being may become increasingly valuable tools in their economic tool box.