THE AUSTRALIA INSTITUTE

Tracking Well-being in Australia
The Genuine Progress Indicator 2000

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Visit www.gpionline.net

The Australia Institute has launched a GPI web site designed to complement the research presented in this discussion paper. The address is www.gpionline.net

The gpionline.net site is an interactive web site that allows users to determine the impact of changes to a number of key variables on the overall measure of welfare.

In calculating the GPI index published in this discussion paper we have relied upon the best available evidence in determining the values assigned to each component. However, in a number of instances, such as the hourly value of household work and the value of human life in determining the impact of climate change, a case can be made for applying different values.

The gpionline.net website allows visitors to select from a range of different values for components such as income inequality, the costs of unemployment and the information content of advertising. Having made selections the site will then redraw the GPI based on the new values.

We hope that the web site will serve as a valuable educational device for those studying welfare and its measurement. It includes discussion of the problems with GDP, the rationale for an alternative measure and some results from GPIs built for other countries.

Preface

This paper reports an updated version of the Genuine Progress Indicator published by The Australia Institute in 1997. The earlier indicator covered the period 1950-1996, while the present one covers the period 1950-2000. In addition to extending it by four years, the new indicator incorporates a number of methodological improvements, notably in estimating the impact of income inequality and the costs of climate change, as well as two new components, the costs of problem gambling and the value of advertising.

The discussion paper is in two parts. The first part provides the rationale for the GPI and raises some key methodological issues. It also presents the results and analyses them. The second part provides a comprehensive discussion of each component making up the GPI. We have attempted to leave detailed information on data sources to the end of the discussion of each component so that readers can obtain a good understanding of how we measure each component without reading each section to the end.

The full data series for each component of the GPI is reported in Appendix 1, and the interested reader is urged to examine the table to obtain an understanding of the contribution of each component to the final indicator. Each data series has been produced by a separate spreadsheet containing the raw data and numerical workings required to obtain the final series for each column.

We would particularly like to thank Dr Hugh Saddler for his substantial contributions to the data and method for several components of the GPI. Peter Saunders kindly provided data on income distribution and the ABS provided advice on a number of data issues. Thanks also to Catherine Blakers and Aine Dowling for proof reading and editing assistance.

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Executive Summary

This study presents the results of the Genuine Progress Indicator (GPI), an alternative to Gross Domestic Product (GDP) as a measure of national progress in Australia. The GPI includes 23 factors that affect well-being in addition to those counted in the official national accounts. It updates the version of the GPI published by The Australia Institute in 1997. The earlier indicator covered the period 1950-1996, while the present one covers the period 1950-2000. In addition to extending it by four years, it incorporates a number of methodological improvements.

Many commentators have highlighted the apparent paradox that while GDP is ever increasing life does not seem to be improving. If the economy is doing so well, many ask, why aren't we enjoying the benefits? A simple explanation for this puzzle is that economic growth and welfare are not the same thing. On the contrary, economic growth can in many cases be associated with declining welfare. Increased pollution, traffic congestion and a sense of disconnectedness from the community can all be products of the unbridled pursuit of economic growth. The distribution of the fruits of growth also has a major influence on how society benefits from it.

Simon Kuznets, one of the 'fathers' of national accounting, was a critic of the use of GDP as a measure of welfare rather than simply as a measure of the extent of market activity in an economy. He wrote:

> The welfare of a nation can scarcely be inferred from a measurement of national income as defined (by GDP)… Goals for 'more' growth should specify of what and for what.

The Genuine Progress Indicator (GPI) attempts to measure the broader impacts of growth, those that fall outside of the national accounts or that are measured wrongly in the national accounts. Unlike GDP, the GPI does not treat expenditure on a home security system in the same way as it treats expenditure on food and clothing. The first is a 'defensive' expenditure, designed to maintain welfare in the face of a deteriorating environment (in this case, a declining sense of personal security). The second is assumed to add directly to the well-being of consumers.

The GPI also includes a range of other important factors that are excluded in the GDP. While unemployment reduces GDP, as unemployed people do not produce as much as employed people, this decline in GDP is not the full measure of the social costs of unemployment. The GPI, on the other hand, includes an estimate of the financial, social and psychological costs of unemployment. The GPI also includes estimates of the costs of underemployment and overwork. In a deregulated labour market hours of work are becoming more unevenly distributed, creating a situation in which overwork and unemployment now exist side by side.

While the natural environment provides the essential foundation on which market production can take place, GDP takes almost no account of the adverse impact of market activity on the environment. In an attempt to overcome this shortcoming, the GPI also includes changes in the value of the 'stocks' of our natural resources. While GDP records the transformation of a native forest into timber as being entirely

positive, the GPI deducts the lost environmental values so that the net effects of logging native forests are accounted for.

For the first time the GPI also includes measures of the costs of problem gambling and an assessment of the value of advertising. Expenditure on gambling has increased rapidly in Australia in recent years. Alarmingly, while problem gamblers account for only 2.1% of the Australian population they are responsible for more than 30% of total expenditure on gambling, losing an average of more than $12,000 each per annum. It makes no sense to count an increase in spending by gambling addicts as an addition to national welfare, so the GPI deducts expenditure on gambling by problem gamblers from total consumption expenditure.

The GPI also deducts a proportion of the total expenditure on advertising on the assumption that much advertising does nothing to enhance well-being. While advertisements can be informative, and in turn assist consumers in finding appropriate products and low prices, this is not always the case. Many advertisements are designed to be persuasive rather than informative, creating new ‘needs’ rather than fulfilling existing ones.

While GDP leaves out many things that reduce welfare it also ignores some positive contributors. One of the largest components of the GPI is the estimated value of household work. While restaurant meals and commercial cleaning services officially add to national welfare because they appear in the national accounts, home cooked meals and doing the housework do not count. The arbitrary distinction between market and non-market services in the calculation of GDP results in the appearance of ‘growth’ whenever in house services are ‘outsourced’. The GPI overcomes this problem by valuing household and community work. While people are free to choose between the two options, their choice should not have a major impact on the measure of national well-being.

The results of the GPI are shown in the figure below where both GDP and GPI are reported in real per capita terms for the period 1950-2000. It shows that the welfare of Australian citizens has grown much more slowly than growth in per capita GDP.

Since 1950, GDP per capita has trebled in real terms, rising from just over $9,000 to just under $27,000. Over the same period, however, the more comprehensive measure of welfare has increased by only 73%, from $7,218 to $12,527.

The rate of growth of welfare has slowed in more recent years. Since 1996 the economy has grown strongly, with GDP per capita rising by 13.4%. When welfare is measured by the GPI, welfare has risen by only 3.6%.

In recent years governments have focussed more and more attention on hastening the rate of growth. It is clear from the GPI, however, that higher growth does not guarantee that welfare will be increased. Trading off more pollution for cheaper electricity, accepting longer hours and reduced job security for faster employment growth, and diminishing the stock of environmental assets to provide a short-term flow of goods will all increase GDP, but such practices may have a deleterious effect on welfare.

The GPI represents a much broader indicator of social welfare than GDP. The results suggest that current policies are failing to improve substantially the welfare of Australians. Unless policy makers begin to rely on broader indicators of welfare than GDP they will continue to pursue policies that, while increasing the size of the market, do little to improve the well-being of Australian citizens.