

# Should The GPI Replace The GDP as a Measure Of Economic Health?

Matthew Wong

Global climate change is rapidly becoming one of the most important global issues of the 21<sup>st</sup> century. There isn't a single person on Earth who can escape this quandary unscathed. Besides getting the attention of the media with flashy headlines, what can we actually do to shift towards truly caring about global climate change? Scholars have been discussing another method of calculating the post-World War II system (known as the Gross Domestic Product or GDP) for more than a decade; this alternative known as the Genuine Progress Indicator (GPI) incorporates value for natural resources, the well-being of individuals, and accounts for harm done to the environment (such as pollution), as well as the overall wealth of the nation. I believe that in order to further our discussion and demonstrate genuine care for finding solutions for the serious challenge ahead of us, we must account for our environment and natural resources in the calculation of the health of our economy.

We have grown up with a market economy that places immense value on supply and demand, but we have totally neglected the fact that we are severely destroying our own habitat and depleting our natural resources. There is only one earth to live on, and if we continue this imprudent behavior our future will be quite grim as many scientists have pointed out. By incorporating the components of GPI into the GDP we can change the psychology of the government and individuals when thinking about protecting our surroundings. This new perspective emphasizes the idea that neglecting the environment and depleting natural resources directly affects everyone in monetary terms—thus creating a greater incentive to prevent further harm to our planet.

In my research, I have come across two opposing perspectives on implementing the Genuine Progress Indicator. The first comes from Tim Worstall, a senior fellow at the Adam Smith Institute and a well-respected writer for esteemed papers like the *New York Times* and the *Guardian*. Worstall argues that although he is aware of the many faults of GDP, he believes that it is still the most accurate way to calculate and put our economy into numbers so that we can quickly react and reform when necessary. He also argues that using a system like GDP can be very useful as long as we truly understand what it calculates. He clearly expresses both what the GDP can be used to measure as well as the many flaws that the system fails to measure:

It's not a measure of all economic activity, nor is it a measure of the good life. And it doesn't measure the distribution of income, another complaint. But it does do what it says on the tin: it's a good measure of the value added in the economy. Given that more value added is generally a good thing, as that means that there's more value to split among everyone, as long as we remain in touch with its limitations it's a perfectly good measure. It's not a God nor a goal to be pursued beyond all else, but it's still a useful measure. (Worstell, 2014)

Worstell also makes the point that countries with higher GDP per capita tend to be nicer places to live and people have better lives in comparison to places with low GDP per capita. He then goes on to talk about the faults of using GPI as a measure. He notes that GPI insists that the loss of wetland decreases the well-being of people. He makes the argument that the loss of farmland isn't necessarily going to result in the fall of wealth or income for the nation. He uses the example of building houses on top of the farmland to increase the value rather than deduction of value for the economy. His main argument is that GPI codifies certain ideas and turns them into the measurement by which everything will be judged (Worstell, 2014). But this view isn't agreed upon by everyone and the premises are highly contentious amongst scholars.

Mark Anielski, for example, thinks very differently about the use of GPI. Anielski is a professor at the University of Alberta, School of Business and a founding faculty member of the Bainbridge Graduate Institute where he taught ecological economics. His belief is that GDP is too money-based and fails to measure what really matters in our lives. He points out that our current economy is solely focused on spending, consuming, and producing which increases the GDP but has very severe consequences for the individual, the community and the well-being of our environment. Anielski makes a succinct distinction between what the word "economy" actually means relative to the perceived meaning we have of it in a capitalistic society:

In the art of economics it is critical to understand the origins of the language we use. The word "economy" comes from the Greek *oikonomia* meaning "the management of the household" (*oikos*). Economics should thus be concerned with the quality of the lives of families and households. Aristotle made a clear distinction between *oikonomia* and *chrematistics* – the science of the wealth of nations, as expressed in terms of money. The word "wealth" comes from the Old-English "weal," meaning "the condition of well-being." In principle, *economists* should be concerned with measuring the conditions of the well-being of the households of a community or nation as well as the conditions of the natural environment that contribute to human well-being. (Anielski, 2001)

He believes that modern day economics is neglecting the conditions of well-being in pursuit of money and that GPI accounts for “sustainable development” that measures both the “physical conditions of living and produced capital.” He also explains the Alberta GPI Account Blueprint, which has five different criteria to measure well-being. These include produced capital, financial capital, human capital, social capital and natural capital. He adds another layer to measure quality of life values, which include social well-being, economic well-being, spiritual well-being and environmental well-being. Anielski believes that it is possible to devise accounts for all of these categories of measurements in order to then create a balance sheet to analyze all the data.

I believe my research unravels a much more complicated picture on the implementation of GPI. There is much discourse by intellectuals arguing the pros and cons of GPI and GDP. Although there is much disagreement, the discussion is needed. My paper attempts to be an addition to the growing conversation about changing the way we behave economically in order to save our planet from global warming and the degradation of our environment. We need to shift away from the old model of calculating growth and look towards the modern day economy—an economy which no longer puts primary value on producing the maximum amount of goods. By only focusing on producing the maximum amount of goods, we overlook the importance of other measures of wealth.

Although many economists argue that the measurement of GPI (Genuine Progress Indicator) is highly subjective in its premises (which are certainly legitimate points of concern and I agree perhaps too aggressive in its undertaking when considering it as a commencing initiative), there are much more grounded data and statistics produced yearly by the government that can serve as a starting point today. These statistics are already in use by the government but they serve only as a reference. Traditional GDP measures have not extended the application to numerically incorporate GDP to represent the well-being of our economy. Some relevant data produced by government sources include data on income distribution, higher education, crime rates, resource depletion, pollution, long-term environmental damage, dependence on foreign assets and public infrastructure. These categories are unequivocally indispensable to modern day life and few would argue that these categories are immaterial to the wealth of our society. By analyzing the data from these sources in depth and using the application of these statistics to find correlations between GDP and these measures of social and economic well-being, we will potentially have additional tools to create better and more prudent measures of economic well-being.

This paper attempts to continue the discourse on whether we should implement GPI on a national level; ultimately, I hope it leads to us beginning to take serious measures to experiment with practical and accurate data that the federal government already has. Only by making decisions based on statistical data instead of those based solely on monetary considerations and by reckoning with social and human activity that affect the well-being of our economy directly can we begin to save our planet from environmental degradation and even improve our economy.

### Bibliography

- Anielski, M. (2001). Measuring the Sustainability of Nations: The Genuine Progress Indicator system Of Sustainable Well being accounts. *The Fourth Biennial Conference of the Canadian Society for Ecological Economics: Ecological Sustainability of the Global Market Place, August 2001, Montreal, Quebec*. Retrieved from <http://www.anielski.com/Documents/Sustainability%20of%20Nations.pdf>
- Genuine Progress Indicator. (n.d.). Retrieved May 24, 2017 from [http://rprogress.org/sustainability\\_indicators/genuine\\_progress\\_indicator.htm](http://rprogress.org/sustainability_indicators/genuine_progress_indicator.htm)
- McElwee, S. (2014). Implementing GPI in Vermont, Maryland and Oregon. Retrieved from <http://www.demos.org/blog/2/5/14/implementing-gpi-vermont-maryland-and-oregon>
- Worstell, T. (2014). The Problems With Using GPI Rather Than GDP. *Forbes*. Retrieved from <https://www.forbes.com/sites/timworstell/2014/06/05/the-problems-with-using-gpi-rather-than-gdp/#148dd74e52a5>

Nominating Faculty: Professor Sean MacDonald, Economics 2505-1D,  
Department of Social Science, School of Arts and Sciences, New York City  
College of Technology, CUNY.

Cite as: Wong, M. (2018). Should the GPI replace the GDP as a measure of economic health? *City Tech Writer*, 13, 12-15. Online at <https://openlab.citytech.cuny.edu/city-tech-writer-sampler/>