

Genuine Progress? Part Two

Friday, August 11, 2006

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I.

Last week I argued that, as well intentioned as it might be, the Australia Institute's Genuine Progress Indicator (GPI) for Australia was systematically biased towards pessimism about our economic welfare. I showed in detail in two areas how the cost of transport and industrial accidents appears to be steadily falling and yet this good news is effectively masked in the GPI accounting.

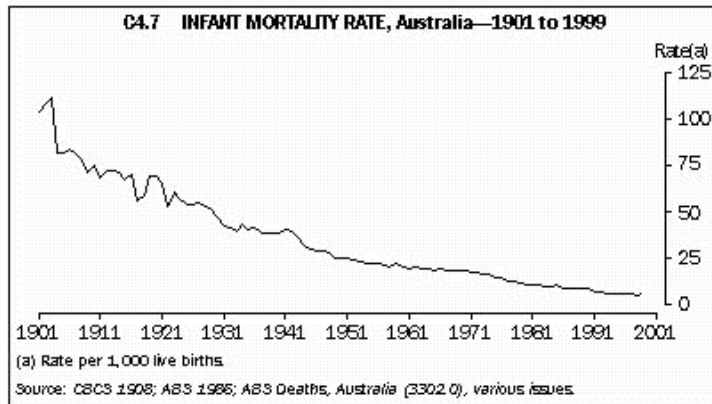
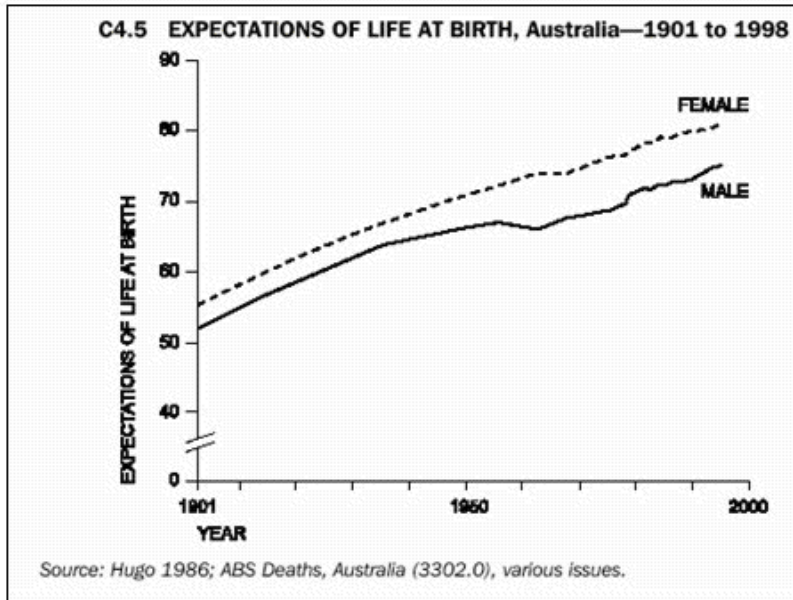
It was unclear whether it was the full explanation, but double counting population growth in the process of indexing costs, certainly helped the GPI calculations to eliminate any clear trend from a base series of transport deaths which fell in absolute terms by nearly 60% from 1970 to 2003 and as a death rate of the population by nearly three quarters. Likewise the steadily falling rate and absolute number of industrial accidents was transformed into a series that rose steadily with GDP.

Though many of the subtractions to GDP seem commonsensical enough even if one takes issue with the methodology, so too one would have expected some obvious additions to the GPI if we are to balance the ledger – to drag the GDP numbers closer to our aspirations and our experienced prosperity.

Indeed the United Nations Development Programme's Human Development Index (HDI) adopted at around the time the GPI was being developed, was a similar response to the inadequacies of GDP, though its use was focused on measuring welfare in developing countries whilst the GPI was focused on developed countries. The HDI brings two considerations centre stage alongside GDP – life expectancy and educational attainment.

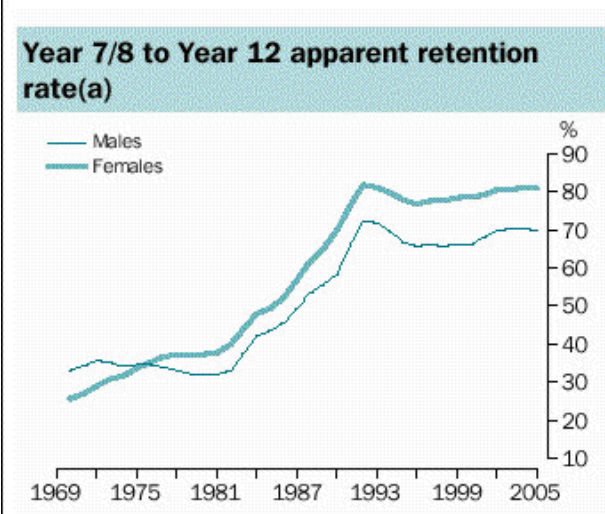
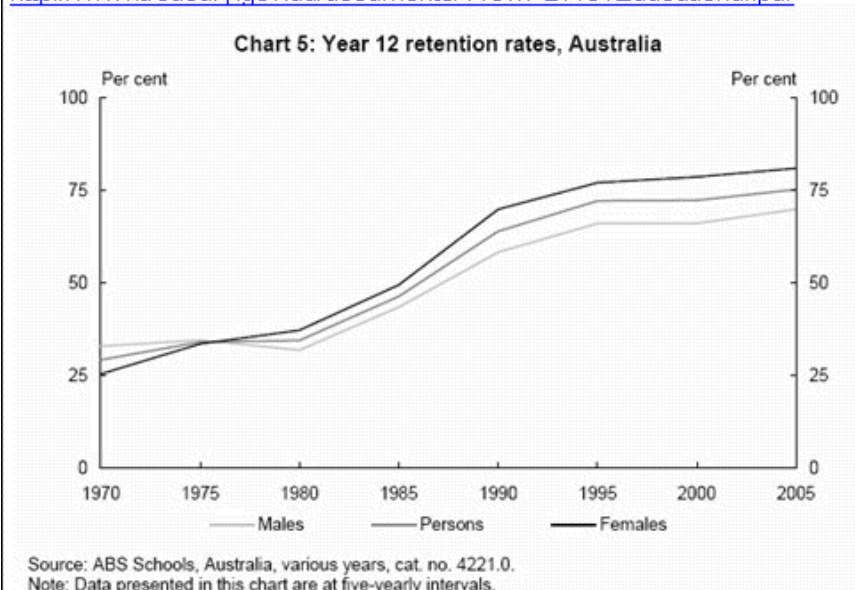
Like all those columns added to the GDP to make up the GPI, these two things are 'invisible' to GDP. But had they been counted in the GPI it would look much less gloomy. Life expectancy has continued to lengthen since 1950 when the GPI series begins, and educational attainment grew sharply during just that period that we are told GPI begins lagging GDP growth.

Both points are not just about values (most of us value longer life and education). They're also about economics. Longer living, more educated citizens are more productive. That's why they call education 'human capital'.



from

<http://www.treasury.gov.au/documents/1107/PDF/01Educational.pdf>



ABS 2006, [Measuring progress](#) – p. 42

In an earlier paper on the development of the GPI, its principal architect in Australia discussed the importance of including capital items in the measure. Indeed the idea that we are running down our natural capital dominates the philosophy and the numbers of the GPI.

He did however concede that “human capital, a potentially major factor in the sustainability of income levels, has been excluded from the index for methodological and data reasons. . . . In order to measure [the increasing] value [of human capital over the period] we would need to define human capital in a way that reflects its contribution to future well-being. This is no easy task. . . . If we included some part of education and health spending as investments in human capital then the effect would be to shift the GPI curve upwards by a small amount (Hamilton, 1997, p.6)”

ABS work suggests the amount is far from small. ABS experimental estimates released in 2004 had Australia's stock of human capital valued at \$5.6 trillion in 2001, a real increase of 75% over the foregoing twenty years (ABS, 2006, p, 46). This is a measure of stock rather than the annual increment to Australian human capital. 'Back of the envelope' calculations will show that allowing for human capital would dwarf the costs imposed by the negative columns in the GPI.

In 1999 it was reported that human capital was "an area of future work". Substantial work was done in 2005 but appears to have been put on hold and has not yet seen the light of day. The work regarding human capital still seems to be something for the future.

II.

The GPI is so concerned about the depletion of economic capital from our oil and gas wells that it deducts an implausible \$65 billion in 2000. That's 13 per cent of GDP or over a quarter of the 'weighted personal consumption' figure from which the GPI is built! This from a think tank that argues (rightly in my view) that strong measures to tackle global warming would not be hugely expensive.

And here's something more to think about in the same vein.

If we're stealing oil and gas from the next generation – will we give anything back in return? From an economic perspective the answer is an emphatic 'yes'. For each generation bequeaths to its successors economic riches which are vast in comparison to the resources they run down. Our main bequest to the next generation is of a truly inexhaustible resource – our know-how, patents, software, blueprints, Woody Allen movies, the Simpsons and Kath and Kim.

Of course this is not to minimise our problems. It is not to say that more wealth is worth even one extinct species let alone the risk to which we are putting the glories of the Great Barrier Reef. One might still take the view that today's crowded, pressured, commercialised and spin-doctored-to-death world isn't a patch on life as it was decades ago.

But in so far as we are trying to generate worthwhile measurements of *economic* wellbeing, correcting market valuations with almost exclusive attention to the negatives and almost none to the positive, seems like a dubious foundation for helping us think about measures to improve our economic, social and environmental lot.

III.

Finally, I wonder if part of the problem is that the GPI is a tad inbred.

When I consulted Wikipedia about the GPI the relevant entry said (until I put in my oar!) that neo-classical economists regard GDP as “a perfectly valid means of “measuring progress”. Perhaps some of the worst do, but no decent economist, neoclassical or otherwise is unaware of GDP’s basic shortcomings as a measure of welfare.

At the moment the GPI exists in a netherworld. Its advocates and architects seem unable to decide whether the GPI should be built to make tendentious points of advocacy or whether by aspiring to higher standards of rigour it might force itself into broader currency.

We will never get widespread agreement on some of its more contentious claims. There will always be people who’ll want to weight inequality as either more or less important than it the way it’s weighted in the GPI. But the GPI website already makes the right move here – allowing different users to generate GPI with their own weightings.

If the GPI is to fulfil its potential it must operate as an agent of dialogue and growing consensus across a wider band of the political spectrum than it does now. I wonder what agreement might be possible between the left and the centre - or even those on the right of the political spectrum - on the contents of a more general indicator of economic wellbeing than GDP.

I don’t know how far we’d get, but it would be fun trying. It might help us build a little more common ground across wider reaches of the political spectrum.

Thanks to Clive Hamilton, Richard Denniss and Ian Castles for helpful comments on earlier drafts. Mistakes of fact or interpretation that remain are those of the author.

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