GGBP

Green Growth Best Practice

GGBP Case Study Series

Genuine Progress Indicator

Related Chapter: Monitoring and evaluation

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Country: United States

Sector(s): Cross-cutting

Key words: Genuine Progress Indicator, environmental sustainability, economic welfare

The Genuine Progress Indicator is a metric that has been suggested to replace, or supplement, gross domestic product as a measure of economic welfare.

Context

The Genuine Progress Indicator (GPI) is one of a handful of beyond gross domestic product (GDP) indicators designed to better approximate sustainable economic welfare. It addresses five key shortcomings of GDP: (1) poor linkages between consumption and quality of life; (2) failure to account for defensive expenditures that do not improve welfare; (3) failure to address sustainability; (4) exclusion of all non-market benefits and costs; and (5) failure to be responsive to inequality.

Approach

At a very basic level, the GPI is designed to answer two fundamental questions about economic activity: (1) what portion of that activity is actually making us better off, or in other words, related to true economic welfare; and (2) what portion of that activity is likely to be sustainable over the long term? As such, the GPI is thus designed to be an indicator of sustainable economic welfare (Daly and Cobb, 1989).

The GPI's current architecture has been formally expressed in an equation that contains seven major aggregations of 26 underlying indicators that can be traced back to each of these core concepts (welfare and sustainability):

$$GPI = Cadj + G + W - D - S - E - N$$

In this expression, Cadj = personal consumption adjusted to account for income distribution, G = growth in capital and net change in international position, W = non-monetary contributions to welfare (e.g. household labor, volunteer work), D = defensive private expenditures, S = depletion of social capital (e.g. cost of crime, family breakdown, lost leisure time), E = costs of environmental degradation, and N = depletion of natural capital (Bagstad et al., 2012). The GPI can be used to capture the costs of policies that degrade environmental policy, as well as the benefits of those that improve it, such as those that reduce the costs of pollution or those that reverse the depletion of natural capital through ecological restoration.

Outcomes

GPI accounts and applications have been completed in 17 countries that account for 53 percent of the world's population and 59 percent of gross world product (Kubiszewski et al., 2013). At the subnational level, applications are proliferating. In the United States, two states (Maryland and Vermont) have officially adopted the metric, and universities and non-governmental organizations in 18 other states are working to develop similar programs.

Lessons

As with the ecological footprint, the popularity of the GPI and the number of governments that have or are considering its adoption are a positive indication of its potential for influence on policy. In Maryland, for example, the annual GPI releases call attention to policies that are in

place to help the growth of the metric over time (Government of Maryland, 2012).

While designed to be a measure of genuine welfare and sustainability, many have also criticized the current architecture as one that delivers fairly well on the first objective and poorly on the latter. To deliver better on its promise as a measure of genuine economic welfare, the GPI needs to better distinguish between personal consumption expenditures that are defensive or deleterious in nature – such as health care expenses that do not actually contribute to better health or spending on 'bads' such as unhealthy foods – and those that actually contribute to our well-being. It also needs to address the issue of the psychic income we receive from goods and services outside the market, such as the ecosystem services provided by natural capital.

With respect to sustainability, critics have pointed out that it is nearly impossible to assign a priori whether a production system is sustainable or not, or whether or not technological substitutes will come on line to replace non-renewable resources (Lawn, 2013). Ideally, the GPI would be based on a rigorous set of sub-accounts that tracks depletions or additions to each stock of essential capital and includes a deduction for the amount of economic activity associated with irreplaceable capital. However, determining what is or is not irreplaceable is an obvious challenge, and because of this some have suggested that the GPI should not attempt to address the sustainability issue at all.

Given the powerful role GDP has played in fostering growth of the conventional economy, it seems clear that investment in a similar headline metric representative of progress towards the green economy would be well worth the effort.

Further Information

Genuine Progress:
http://genuineprogress.net/genuine-progress-indicator/

References

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