

The **Genuine Progress Indicator** (GPI) is a concept in [green economics](#) and [welfare economics](#) that has been suggested as a replacement metric for [gross domestic product](#) (GDP) as a metric of [economic growth](#). Unlike GDP it is claimed by its advocates to more reliably distinguish [uneconomic growth](#) - almost all advocates of a GDP would accept that some economic growth is very harmful:

A GPI is an attempt to measure whether or not a country's growth, increased production of goods, and expanding services have actually resulted in the improvement of the welfare (or [well-being](#)) of the people in the country. Accordingly for example, the GPI will be zero if the increases in dollar costs of crime and pollution equal the total dollar rise in production of goods and services, all other factors being constant.

Motivations for developing a Genuine Progress Indicator

Most economists assess the progress in welfare of the people in a country over time by comparing the gross domestic product over time, that is, by adding up the annual dollar value of all the goods and services produced within the country over successive years.

However, under the standard application of GDP, ecological disasters such as the [Exxon Valdez oil spill](#) improve the GDP, because the calculation of GDP adds as a bonus economic activity the lump sum of labor and capital expenditures required to mitigate the ecological damage to Prince William Sound.

[1] (<http://www.betterworld.com/BWZ/9610/learn.htm>)

Even its inventors argue that GDP is prone to [productivism](#) or [consumerism](#), over-valuing production and consumption of goods, and not reflecting [improvement in human well-being](#) at all. GDP was not intended to be used as a measure of these things, and was not supposed to be a measure of [goodness](#) of any governmental decision. Its use to justify such decisions is a fairly recent phenomenon.

GPI by contrast is more politically acceptable, as it takes into account the [enhancement of nature's ability to provide services](#) and [generate water, air, soil and produce](#). These things are part of a more inclusive ideal of [progress](#), and are more easily perceived and believed by most people, than are raw industrial production

metrics. See [Global Resource Bank](#) for an application of GPI directly to [monetary reform](#).

GPI also reflects [sustainability](#): whether a country's economic activity over a year has left the country with a better or worse future possibility of repeating at least the same level of economic activity in the following years. For example, agricultural activity that uses replenishing water resources, such as river runoff, will score a higher GPI than the same level of agricultural activity that drastically lowers the water table by pumping irrigation water from wells.

In contrast, other economists, notably [Herman Daly](#), [John Cobb](#),

[\[2\]](#) (<http://www.scottlondon.com/reviews/daly.htm>) and Philip Lawn

[\[3\]](#) (<http://www.iisd.org/measure/compendium/DisplayInitiative.aspx?id=1367>) have

asserted that a country's growth, increased goods production, and expanding services have both "costs" and "benefits"--not just the "benefits" that contribute to GDP. That is, these and similar economists concerned over sustainability of current economic activity assert that, in some situations, expanded production facilities and other free market activities damage the health, culture, and welfare of people in ways that conservative free market economists ignore. In particular, Daly, Cobb, and Lawn assert the "threshold hypothesis" that Manfred Max-Neef developed--the notion that *when macroeconomic systems expand beyond a certain size, the additional benefits of growth are exceeded by the attendant costs.* (Max-Neef 1995.)

Philip Lawn has developed a theoretical framework for determining the "costs" of economic activity that balance against the "benefits" of growth in a Genuine Progress Indicator to determine whether economic development improves or harms the welfare of people. According to Lawn's model, the "costs" of economic activity include the potential harmful effects of the following costs:

- Cost of resource depletion
- Cost of crime
- Cost of ozone depletion
- Cost of family breakdown
- Cost of air, water, and noise pollution
- Loss of farmland
- Loss of wetlands. (Lawn 2003, p. 108, Table 1.)

Theoretical foundation of Genuine Progress Indicator

The need for a **GPI** to replace biased indicators such as [GDP](#) was highlighted by analyses of [uneconomic growth](#) in the 1980s notably that of [Marilyn Waring](#) who studied biases in the UN System of National Accounts.

By the early 1990s there was a consensus in [human development theory](#) and [ecological economics](#) that growth in [money supply](#) was actually reflective of a loss of well-being: that lacks of essential natural and social services were being paid for in cash and that this was expanding the economy but degrading life.

The matter remains controversial and is a main issue between advocates of [green economics](#) and [neo-classical economics](#). To the latter, [GDP](#) is already a perfectly valid means of **measuring progress**, and there is no problem with including a rising [health care](#) or purchase of basic survival goods like [water](#) in growth indicators - whereas a **GPI** analysis would take both as indicators of more fundamental problems, not as indicators of actual **progress** to any state deemed desirable.

The issue was brought to a head by [Herman Daly](#) in 1995 who asserted strongly that all growth that was in excess of sustainable norms (e.g. of [ecological yield](#)) had to be considered to be [uneconomic](#). This was later underscored by [John McMurtry](#) in his book *The Cancer Stage of Capitalism* which likened the kind of growth that was being measured by GDP in the 1990s as being more like a tumour than like the healthy growth of an organism.

Analysis by Robert Costanza also around 1995 of [nature's services](#) and their value showed that a great deal of degradation of nature's ability to clear waste, prevent erosion, pollinate crops, etc., was being done in the name of monetary profit opportunity: this was adding to GDP but causing a great deal of long term risk in the form of mudslides, reduced yields, lost species, water pollution, etc.. Such effects have been very marked in areas that suffered serious [deforestation](#), notably [Haiti](#), [Indonesia](#), and some coastal mangrove regions of [India](#) and [South America](#). Some of the worst land abuses for instance have been shrimp farming operations that destroyed mangroves, evicted families, left coastal lands salted and useless for agriculture, but generated a significant cash profit for those who were able to control the export market in shrimp: this has become a signal example to those who contest the idea that GDP growth is necessarily desirable.

Hicks: Distinguish "income" from "capital depletion"

Hicks (1946) pointed out that the practical purpose of calculating income is to indicate the maximum amount people can produce and consume without undermining their capacity to produce and consume the same amount in the future. From a national income perspective, it is necessary to answer the following question: "Can a nation's entire GDP be consumed without undermining its ability to produce and consume the same GDP in the future?"

Fisher: Distinguish "enjoyment of life" from "production of goods"

Fisher (1906) contended that "economic welfare depends on the psychic enjoyment of life," not just the production of goods.

Applying the Genuine Progress Indicator to legislative decisions

The best known attempt to apply a GPI to legislative decisions is probably the GPI Atlantic indicator pioneered by Ronald Colman for [Nova Scotia](#), and the **ecological and social indicators** used by the [Government of Canada](#) to measure its own **progress** to achieving well-being goals: its Environment and Sustainable Development Indicators Initiative (Canada) is a substantial effort to justify state services in **GPI** terms. It assigns the Commissioner for the Environment and Sustainable Development (Canada)), an officer in the [Auditor-General of Canada's](#) office, to perform the analysis and report to the [House of Commons](#).

This has not satisfied the stricter advocates of GPI, however: Canada continues to state its overall budgetary targets in terms of reducing its debt to GDP ratio, which implies that GDP increase and debt reduction in some combination are its main priorities. And not all parties believe that anything less than total commitment of the A-G's office only to the "genuine" **indicators** can achieve the goals:

Despite the efforts of local communities to achieve more sustainable development, Canada lacks a federal Genuine Progress Indicator (GPI), said [Green Party of Canada](#) leader [Jim Harris](#). "Measuring well being through GPI is the first step to forming solid solutions to problems facing our communities," said Harris. "Indicators such as Gross Domestic Product (GDP) show financial growth without taking into

account harmful activities such as crime and pollution. A strategy that uses GPI to better reflect our concerns is essential to protecting our health and overall well being." [4] (<http://www.greenparty.ca/lp/tiki-index.php?page=CANADA+LACKS+FEDERAL+GENUINE+PROGRESS+INDEX>)

In the EU the [Metropole](#) efforts and the London Health Observatory methods are equivalents focused mostly on urban lifestyle.

The EU and Canadian efforts are among the most advanced in any of the [G8](#) or [OECD](#) nations, but there are parallel efforts to measure [quality of life](#) or [standard of living](#) in [health](#) (not strictly [wealth](#)) terms in all [developed nations](#). This has also been a recent focus of the [labour movement](#).

Activists

- Scandinavia
- Netherlands
- France
- Germany

- [Canada planning applications](#) (http://www.gpiatlantic.org/clippings/mc_planning.shtml). GDP has functioned as an "income sheet." GPI will function as a "balance sheet," taking into consideration that some income sources are very costly and contribute a negative profit overall.

- [Redefining Progress](#) (<http://www.redefiningprogress.org/projects/gpi/>). Reports and analyses. A non-profit organization with headquarters in Oakland, California.
 - GDP inaccurately counts the wrongdoings of Enron, Arthur Anderson, WorldCom as healthy activity. "The wrongdoings at Enron alone will contribute up to \$1 billion to the US economy, in the form of legal fees, jail time, media frenzy and associated payouts."
[\[5\]](http://www.redefiningprogress.org/media/releases/040311_gpi.html) (http://www.redefiningprogress.org/media/releases/040311_gpi.html)
 - [Applications of GPI](#) (http://www.redefiningprogress.org/publications/gpi_march2004update.pdf): Accounting, recent advances in theory, application to San Francisco Bay Area, application to disasters such as wildfires.

- [Minnesota planning applications](#) (<http://www.eqb.state.mn.us/SDI/progressind.html>)

Articles

- "The Growth Consensus Unravels" by Jonathan Rowe. Dollars and Sense, July-August 1999, pp. 15-18, 33.

- "Real Wealth: The Genuine Progress Indicator Could Provide an Environmental Measure of the Planet's Health" by Linda Baker. E Magazine, May/June 1999, pp. 37-41.
- "The GDP Myth: Why 'Growth' Isn't Always a Good Thing" by Jonathan Rowe, and Judith Silverstein. Washington Monthly, March 1999, pp. 17-21.
- "If the GDP Is Up, Why Is America Down?" by Clifford Cobb, Ted Halstead, and Jonathan Rowe. Atlantic Monthly, October 1995, pp. 59-78.

References

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- Daly, H. & Cobb, J., 1989. *For the Common Good*. Beacon Press, Boston.
- Fisher, I., 1906. *Nature of Capital and Income*. A.M. Kelly, New York.
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- Lawn, P.A. A theoretical foundation to support the Index of Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI), and other related indexes. *Ecological Economics* 44 (2003) 105-118.
- Max-Neef, M. Economic growth and quality of life. *Ecological Economics* '15 (1995) 115-118.
- Redefining Progress, 1995. Gross production vs genuine progress. Excerpt from the Genuine Progress Indicator: Summary of Data and Methodology. Redefining Progress, San Francisco.

External links

- [Hansard record of Canadian House of Commons debate of June 2, 2003](http://www.flora.org/sustain/7GI/Hansard-June2-03.shtml) (<http://www.flora.org/sustain/7GI/Hansard-June2-03.shtml>)

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