Chapter 22

Strategic Perspectives on the Genuine Progress Indicator and Gross Domestic Product

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ABSTRACT

Traditionally, the status of an economy has been measured regarding its real output. The most popular yardstick for this figure is the gross domestic product. Gross Domestic Product, however, does not take into account many more complex elements of economic welfare. Efficient and accurate measurement of the status of an economy is central to furthering economic sustainability. This paper seeks to investigate the advantages and disadvantages of one such well-being measure, the Genuine Progress Indicator, compared to the use of traditional Gross Domestic Product as a measure of economic activity.

INTRODUCTION

Traditionally, an economy's real output determined its status. The most popular yardstick for measuring output is the gross domestic product (GDP). GDP is defined as "the market value of all the final goods and services produced by the economy in a given year" (Rogers, Jalal, & Boyd, 2008, p. 300). End products and services consist of "all currently produced goods and services that are sold through the market but not resold during the current time period" (Gordon, 2009). The adequacy of GDP as a meaningful measure increasingly has been questioned, however, as theories of economic development have evolved to place greater importance on sustainable growth. Economic sustainability theory rejects

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growth for "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987, p. 8). Furthermore, sustainability theory embraces the interrelatedness of economic, environmental, social, and cultural issues as the basis for effective, sustainable development. This approach has created a need for new tools to measure sustainable economic growth efficiently and accurately. The Genuine Progress Indicator (GPI), has been proposed as a more comprehensive measure of economic activity than GDP. This paper examines the advantages and disadvantages of continuing to use GPD or adopting the GPI as a measure of economic growth.

ADVANTAGES AND DISADVANTAGES OF GDP

GDP developed as an economic indicator during the Great Depression, but subsequently "became the primary standard for measuring a society's economic progress and standard of living" (Daly & McElwee, 2014, p. 1). The main advantage of GDP as a measure of economic activity is that it is relatively objective. GDP just measures the goods produced and sold in an economy without attaching a subjective analysis of what action is right or wrong (Cobb, Halstead, & Rowe, 1995). Even as concepts of economic growth have changed and developed, GDP continues to have its supporters who maintain its advantages as a traditional measure of economic output. Proponents of GDP suggest that since the sale of a good and service reflects the fact that the good or service satisfied a human want or need, the components of GDP can be said to contribute to the human satisfaction or the benefit to society as a whole (Gordon, 2009). A policy brief from the Centre for European Studies examined the use of GDP within the debate concerning well-being indices generally and asserted that the value-free basis for GDP makes it a desirable measure of the state of society's economic welfare (Norberg, 2010).

Consequently, GDP meshes well with liberal and pluralistic societies containing a variety of viewpoints on the nature of well-being (Norberg, 2010). Norberg suggests that GDP alternatives are "constructed with a specific political agenda in mind and are easily manipulated by governments" (Norberg, 2010, p. 1). The value-free defense of GDP can be summarized that GDP measures material wealth, and that is all it claims to do. Since it does not attempt to define well-being, it cannot be used by governments or majority groups to try to improve happiness (as they define it) by imposing their will upon opposing or differing groups (Norberg, 2010).

Norberg also defends GDP by asserting that the economic growth measured by GDP can be tied to happiness even if particular social or environmental factors are not isolated. He argues that richer countries are typically happier, citing Gallup's World Poll data at the time of writing, which found 1% of economic growth translated into a 0.2-0.4% increase in subjective well-being (Norberg, 2010). The lack of wealth (and associated technology) is the direct cause of damaging environmental practices that commonly exist in poorer nations. Thus, Norberg argues that richer countries are usually the most environmentally sustainable countries as well (Norberg, 2010).

The use of GDP as a meaningful measure of economic activity as increasingly defined by new concepts of economic growth and sustainability, however, faces criticism on conceptual and practical grounds. The principle creator of GDP, Simon Kuznets, stated that "the welfare of a nation can scarcely be inferred from a measurement of national income as defined by the GDP" (Daly & McElwee, 2014, p. 2). GDP arguably measures production growth but is limited as a measure of the growth and welfare of society overall. Also, to the extent that GDP is a measure of growth, it has a tendency to overestimate activity: