

## Gazing at our GDP navel

Long-awaited research to construct an alternative measure of national progress is expected to be released soon.

JOHN McCRONE explores whether the old GDP ratio really tells how New Zealand is doing.

Modern life is rubbish. Let me count the ways.

Subaru Imprezas with dustbin exhausts available on "no dollar down" financing. Quad stacker hamburgers, 1000 k cal a serve, 60 per cent of those calories being fat. Internet porn and Disney Channel TV. Suicide rates, divorce rates, child abuse rates. Leaky homes, politicians and their expense accounts, cows fountaining excrement into unfenced streams.

For anyone thinking life has been going sideways ever since the 1970s, it is now official. Or at least it soon could be.

The traditional measure of a country's progress is its Gross Domestic Product (GDP) per capita - the total of its economic activity, divided by the size of its population.

GDP is good. It is the dial on the dashboard telling us just how fast New Zealand Inc is moving towards the future. And governments shape their policies to nudge the needle ever higher.

New Zealand GDP growth has not exactly slouched. Even allowing for inflation, our GDP has risen around 18 per cent over the past decade. But the Australian GDP has been ripping along even faster. Which is why we want to close the productivity gap by mining our conservation areas, and giving the flick to any regional councils that get in the way of the march of dairying.

Yet is GDP actually good? Is it a sensible measure of prosperity?

In fact it is merely the sum of anything that results in a movement of money - dollars changing hands. So for example, floods and road accidents are a boost for national GDP because someone somewhere has to buy new carpets, or restock on bandages.

The costs of running prisons and drug rehabilitation centres, of performing stomach-stapling operations or dealing with land erosion, all contribute to our annual GDP tally.

At the same time, GDP fails to measure much we might value. When someone stays home to look after the kids, or volunteers down at the homeless shelter, NZ Inc registers no benefit. The GDP needle does not even flicker.

It sounds like we ought to have a better measure of what counts as economic progress. A Genuine Progress Indicator (GPI), indeed.

A GPI, or some other national "quality of life" index, has been talked about for decades. New Zealand has had one of the pioneer thinkers in Marilyn Waring, the "youngest MP" and feminist firebrand of the mid-1970s, who made the case against a fixation on GDP in her 1989 bestseller, *Counting for Nothing*.

Now, in the next few months, some long-awaited research to actually construct a national GPI is expected to be released.

"Political dynamite," forecast some, such as John Peet, a retired Canterbury University engineering professor and ecological economist.

If New Zealand matches the trends of such studies done elsewhere, says Peet, then the GDP versus GPI chart will confirm what many have quietly believed.

From World War II until the late 1970s, GDP and GPI roughly kept track. Any expansion in economic activity registered directly as a general increase in reasons to feel good about life.

But from the 1970s, raw economic output has continued to soar (and no wonder with every family working two jobs and all hours, says Peet) while GPI has stagnated. Spinning the wheels faster has not necessarily been paying off.

"This is going to be very politically challenging, because if governments - both Labour and National - have been promoting economic growth beyond almost all else, and it can be shown that economic growth has not actually delivered improvements in wellbeing or any of the other indicators of real progress, then what the hell is it all

about?" Peet asks.

It could be just human nature. When it comes to how society should be run, some of us are optimists, others pessimists. Some are always feeling for the brakes while others want to jam the accelerator to the floor. And we all have to ride in the same car.

But no, say GPI proponents like Clive Hamilton, founder of the progressive think-tank The Australia Institute. He's now a professor of public ethics at Charles Sturt University. We really have been driving our economies using a false measure, he says.

Hamilton says there are three kind of capital to consider when talking about increasing levels of wellbeing - the social, environmental and economic. And each needs to be properly costed to see if we are ending the year in credit, a step better off than the year before.

"If you're running down your environment to sustain economic growth - polluting your waterways, filling the atmosphere with greenhouse gases, chewing up your native forests - then that's a cost that has to be taken into account in any national measure of wellbeing.

"And you also need allow for any run down in social capital that follows from pursuing growth in a single-minded way - things like health, unemployment, drug- taking, gambling and unequal distributions of income. "It is a bit tricky, but you can measure all these things, put a price on them, and so get a broader net figure for what the economy is doing."

Put this way, it seems obvious to most people, says Hamilton.

But Hamilton says it is as though we have created a voracious growth machine - a self-perpetuating monster - which has become quite detached from where we want to go.

"You have to ask who benefits from having GDP as our primary measure of national progress, and therefore the principle focus of government policy? And you have to say business.

"They claim they are the wealth creators, therefore they should be looked after. But GDP promotes pure income growth at the expense of many of the actual social and environmental costs of doing business."

It is all about increasing consumption or through-put. And what has happened is that we have let this become an end in itself, argues Hamilton. We have been groomed to think a certain way.

"Advertisers are now targeting kids as young as five, four and three. They are spending billions. And they are basically creating the next generation of hyper- consumers - growing them in a vat of commercial messages." Yet there is enough research to show that consumption is not what makes humans happy. Past a certain point, Hamilton says, a new pair of shoes, a bigger house, a flashier car, become just fleeting moments of gratification. And we have been going down this path for about 30 years. Now there are many who are weighing the short-term satisfactions of GDP growth against the longer-term backdrop of a weakening social fabric and deteriorating environment, and finding the equation wanting, he says.

Or maybe he is just speaking for the pessimists, Hamilton admits. Memory can be guilty of painting the past with a rosy glow. Perhaps our lot, our balance sheet of life has improved overall?

Perhaps. But Hamilton quickly adds, how can we know unless we have gone out and honestly measured things? The devil is always in the details. There is a widespread feeling that the time for a GPI measure has come. But among the experts, a bitter division has developed over how best to actually do it.

Some hold on to the original dream of a single index, a "green GDP" which simply tallies all the pluses and minuses of economic activity and gives an annual result - the net national profit once social and environmental costs have been fully considered.

The beauty of GDP as a measure has been its simplicity and the fact every country could do it the same way. One compass pointing in one direction. For the same reason, a GPI measure should also be a single figure. But others say this is too simple. Our lives are multi-dimensional and so we need a basket of indicators to make intelligent decisions. Besides, even a green GDP still keeps GDP - consumption, dollars changing hands - at the centre of things. This way of calculating GPI continues to treat economic growth as essentially good, the right general goal, whereas perhaps we ought to be rebuilding our whole value system from the ground up on principles such as sustainability and social capital. No growth in certain directions might be the intelligent choice? Some difficult choices have to be made here, and it is getting a little fraught as a long-brewing debate finally looks to be going public.

One of the ironies of the GPI story is that New Zealand sparked much of the original thinking.

Over the past decade, the leading adopter of GPIs has been Canada. And it was largely sparked by Marilyn Waring's early research on national wellbeing.

Now a professor of public policy at Auckland University of Technology, Waring says in *Counting for Nothing* she just happened to focus on Canada as her country example, because in terms of paying attention to social and environmental outcomes, Canada was already best practice. "So if I could find holes in what the best was doing, then I could really show there were problems."

Her book became a Canadian best-seller and required reading for students. Waring ended up doing speaking tours most years and working closely with researchers like Ron Colman of GPI Atlantic, who has created a state-level GPI for Nova Scotia.

"For 20 years over there, young people have had to watch documentaries they made of my work," Waring laughs.

But the GPI call has now been taken up more generally all round the world.

For example, the United Nations has produced a Human Development Index which combines life expectancy, education levels and GDP as a benchmark of living standards.

And international commentators have been tickled by the Buddhist nation of Bhutan establishing a Gross National Happiness index which includes spiritual measures such as frequency of prayer and meditation.

But the big recent event was a report by Nobel laureate economists Joseph Stiglitz and Amartya Sen, commissioned by French President Nicolas Sarkozy, on rethinking national measures of wellbeing.

It is a notable fact that Sarkozy is right of centre politically, feels Guy Salmon of Nelson's Ecologic Foundation, the National Party-connected "Blue-Green" think tank.

This shows a concern with GDP as focus of policy is no longer just a left-wing issue, says Salmon. Across the board, there is a gathering mood for change.

Yet that still leaves the question of how best to construct a GPI - as a clean single indicator or basket of measures? In New Zealand, the debate has become represented in two competing research efforts.

The single indicator approach is being led by Professor Murray Patterson, of the New Zealand Centre for Ecological Economics (NZCEE), a joint Massey University/Landcare venture. Patterson has been working since 2003 on creating both a new GPI measure and a retrospective GPI time series going back to 1970.

Labour MP Maryan Street reveals former Finance Minister Michael Cullen agreed to fund the study after a little persuading. "Any government is naturally going to be rather anxious about what such a report might say," Street, a GPI supporter, says.

And it is these figures, which Patterson promises should be finally released this September, that could cause a stir if they show that the quality of life in New Zealand has indeed not improved because rising consumption brings with it just as many ills overall.

Meanwhile, a second broader attempt to develop a basket of measures, drawing on the more recent work of Waring and Colman, is also set to go public this year.

Promoted by Auckland sustainability consultant Dave Breuer, founder of the ginger group Anew New Zealand, the alternative index has been dubbed an Indicator of Progress and Wellbeing (IPW).

Breuer says there is still a long way to go before producing any figures. But the approach now has strong backing from local government, business lobbies and government departments like Statistics New Zealand. The plan is to set up an independent think tank, the New Zealand Centre for Progress and Wellbeing, hopefully before the end of the year.

Patterson says the problem with the basket method is that such an index is "soft". Once a GPI strays into the area of social and spiritual values, the potential for dispute becomes endless. A single composite figure remains the best way to focus national attention.

And Patterson says people will find that a GPI can be surprisingly detailed. For instance, the cost of allowing beachfront housing developments can be weighed against the resulting loss of erosion protection from sand-dunes and wetlands in clear dollar terms.

Likewise, the social cost of both overwork and underwork - the stress, childcare burden and problems arising from long hours, and then the other kinds of costs resulting from an increasing shift to casual and contract employment - can be included in the national accounts.

However, Waring and Breuer reply that the single GPI approach was the flavour of the day a decade ago.

The latest international work, like France's Stiglitz report, has swung behind the need for more sophisticated measures.

"A simple GPI gives you a one-dimensional judgment," says Waring. "Everything is either up or down. But these things are multi-dimensional. There are all kinds of trade-offs people might choose to make. So you need

something more comprehensive to be able to make good decisions."

Breuer says a key difference is that the single GPI operates top-down. The existing presumptions about growth being good are locked in because GDP is still at the heart of the measure. The only change is losses as well as profits are now being counted. Breuer says the basket approach of a wellbeing index allows a fresh start, from the bottom.

This is why a first step for the Centre for Progress and Wellbeing will be a broad public consultation exercise, asking "What matters most to New Zealanders?" Breuer says it is the only way to take a real step back and know that, as a society, we are measuring the things we truly value.

It sounds like a battle of viewpoints that could derail the whole push for some kind of New Zealand GPI. And despite each side's attempts to be polite about the other, the tensions are hard to disguise.

However, the optimistic voice from both camps is that perhaps having the two kinds of work going on will lead to something stronger in the end.

NZCEE's Vicky Forgie, responsible for the environment component of Patterson's index, says as top-down and bottom-up approaches, coming at the same problem from different directions, there is no reason why they should not turn out to be complementary.

Street, former Labour Associate Minister of Economic Development, says what is significant is that New Zealand appears poised to do something ground-breaking. Having half-invented the idea originally, we are now in a good position as a small country to ask "what the hell" is progress all about.

And there are others making moves as well. Statistics NZ has come out with its own analysis of GPI measures in a report entitled "Measuring NZ progress using a sustainable development approach".

Christchurch Green MP Kennedy Graham is pushing for a private member's bill that would commit the Government to including GPI measures as part of future Budget making.

Graham says he is not yet advocating any particular measure. His aim at the moment is to get a foot in the door and establish the principle of GPI being a required part of official planning. However, he is looking forward to the bill galvanising the debate.

Waring says what matters is that for years many people have had a sense society has not really been considering where it is going. All that gets talked about is fuelling GDP growth.

Yet in the end, the answer seems almost too simple to be true. Decide what should be measured and measure it. Crunch the numbers and discover whether modern life is indeed increasingly rubbish. Or not.