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The Genuine Progress Index and the Current Economic Crisis

After more than 12 years of research and development, the Nova Scotia Genuine Progress Index is now ready for use and application. It is particularly needed at this moment in history, when the conventional economic system is in disarray, when economic 'experts' confess surprise and dismay at the sudden collapse, in October 2008, of the 15-year economic 'boom' that they thought would continue indefinitely; and when current solutions utterly fail to address the real challenges facing the world.

Because it is a net rather than gross accounting system (like our present GDP-based system), the Genuine Progress Index can be an effective antidote to each of these failures:

1) It functions as an early warning system that allows timely remedial action to protect against such crises.
2) It enables more astute and accurate analysis of the causes and dynamics of the current crisis.
3) It suggests creative solutions that can protect the economic security and welfare of Nova Scotians, while improving their quality of life and enhancing sustainability.

Here we very briefly summarize each of these functions. For a more detailed analysis, see http://www.gpiatlantic.org/pdf/integrated/policyapp.pdf.

1. The GPI as an Early Warning System

In September, 2008, a month before the economic crash, GPI Atlantic released a report on financial security that showed debt levels rising at a much faster rate than income between 1999 and 2005. The GPI study pointed out that—except for the richest 20% of Canadians—debt-servicing capacity and ability to manage debt had declined for the vast majority of Canadians, even at the height of the economic boom period. Because the GPI is a 'net' accounting system, it can send early warning signals of impending economic troubles like this much more effectively than the present GDP-based 'gross' accounting system that counts only what Canadians produce, earn, and spend.

The same is true for ecological debt. Fisheries GDP was at record levels right until the collapse of the ground-fishery in 1992—sending no early warning signal of impending trouble. That's because GDP only counts what we extract from our natural resource base—like the crops, logs, and food we send to market—and ignores the health of what we leave behind (our soils, forests, and fish stocks) and what it costs to extract the resource.

By contrast, GPI Atlantic released a report in April, 2001, showing Nova Scotia farming costs and debt growing much more rapidly than farm cash receipts, and thus net farm income declining sharply. The 2001 GPI report warned explicitly that:

> All five indicators of farm economic viability [. .]. in the Nova Scotia farm sector show that farm viability in Nova Scotia is being seriously eroded, and independence is being undermined. These disturbing trends are occurring even while farm cash receipts are growing, and while standard economic growth measures fail to signal problems. Yet, if current trends continue unabated, the future of Nova Scotia agriculture is clearly at risk.
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> Nova Scotia farmers are spending more to produce food and getting less for their products. They are going deeper into debt and having more trouble making payments on their debt…. If current trends continue [. . .] major parts of the province's agriculture sector will disappear.

GPI Atlantic's 2008 update of this report noted that these and other troubling trends identified in the 2001 GPI report had indeed continued unabated, as had the underlying causes of these trends. In fact, for the first time in recorded history, Nova Scotia farms reported negative net farm income (where income no longer covered expenses) in four of the last six years—showing the situation had become much worse, and that it literally no longer pays farmers to farm.

A key purpose of the Genuine Progress Index is to provide an early warning system of potentially troubling trends so that timely, corrective interventions can be undertaken before development of a real (and potentially irreversible) crisis. By contrast, the conventional GDP-based statistics sent no early warning of the current economic collapse, the collapse of the fish stocks, or declining farm viability. A GPI would have enabled us to take early action to protect Nova Scotians from the worst fallout of this economic crisis, to conserve fish stocks before they collapsed, and to enhance farm economic viability well before net income started dipping below zero and before it was too late for many farmers.

2. More accurate analysis

Any day's news reveals the extent to which economic growth has become identified with wellbeing, with the language of health continually used to make this equation. Thus an economy that is not growing is described as "sick" and "ailing", and the "injection" of stimulus packages into the sick 'patient' is intended to spur economic "recovery."

But this equation of growth with health is seen to be highly questionable through a GPI lens that (a) recognizes some economic activities as improving wellbeing and some (like crime, sickness, pollution, and war) as reflecting a decline in wellbeing, and (b) does not count the depletion of our natural wealth as economic gain, as the GDP does. From a GPI perspective, therefore, the key question in these troubled times, is not simply stimulating the economy to grow (a simple-minded quantitative approach), but rather to ask what particular kinds of investment will produce the greatest long-term social benefits.

The current growth-based economic paradigm inevitably leads to overproduction, over-consumption, and increasingly severe boom and bust cycles that unrealistically raise expectations and then lead to cruel disappointments like the loss of jobs and hard-earned pension savings. The so-called economic ‘boom’ of 1994-2008 saw debt levels mushroom with irresponsible offers of easy credit designed to keep people spending beyond their means. And it led to overwork and rising stress rates, as Nova Scotians saw their free time and family time shrink.

In the U.S., much of the growth in GDP since 2001 was the result of people borrowing money against their homes in the form of Mortgage Equity Withdrawals (MEW) to make consumer purchases. According to John Mauldin, reporting on data from Alan Greenspan, former Chairman of the Federal Reserve (1987-2006): “Without U.S. homeowners using their homes as an ATM, the economy would have been very sluggish indeed, averaging much less than 1% for the six years of the Bush presidency….Without MEWs, the period from 2001-2007 would have seen GDP growth of less than 1%.” Again, without a net accounting system like the GPI that identifies the relationship between spending and debt, GDP production and consumption statistics alone can send highly misleading messages.

Most seriously, over-consumption is ecologically and economically disastrous for the planet—with resources and energy consumed, and waste and greenhouse gases produced, at faster rates than the planet can handle. We are now in a state of serious “ecological overshoot’ and dangerous climate change, with future generations left to pay the ecological debt we have amassed. This kind of debt is no less irresponsible than the banking practices that produced the sub-prime mortgage crisis in the U.S. that triggered the current economic collapse. As George Monbiot has observed: “Climate breakdown, peak oil and resource depletion will all dwarf the current financial crisis, in both financial and humanitarian terms.”

The GPI very clearly demonstrates that prosperity is impossible without sustainability, and that simply returning the economy to a path of “infinite growth on a finite planet,” as Monbiot puts it, is a prescription for even greater disaster. From a GPI perspective, it is clear we will more quickly achieve our Kyoto and other sustainability targets through this recession than through any well-meaning intentions, speeches, or endless consultations. The only difference is that intelligent use of the evidence in the GPI would enable us to do so without the pain and confusion of the current crisis.

3. Creative solutions

It was debt-fuelled growth that was largely responsible for getting us into this current economic mess. Yet ***more*** debt-fuelled growth, in the form of a ‘stimulus’ package that’s about to add $1.4 billion to Nova Scotia’s debt, is now being touted as the solution. This is literally fighting fire with fire. The only difference is that the new debt is now government rather than consumer debt. What the GPI always asks is: Who will pay the debt, whether that debt is fiscal or ecological? The answer is obvious: It is still taxpayers—and future generations—who will pick up the tab from the debt now being accumulated.

The 2008 GPI financial security report noted: “The province’s capacity to manage debt has seemingly improved in recent years, and Nova Scotia’s provincial treasury is in better fiscal shape than in the previous two decades, which were characterized by annual deficits and a rapidly accumulating debt…. The debt management trends of recent years can tentatively be judged to signal "genuine progress" for the province." From a GPI perspective, it will be a great shame to see this positive trend now eroded.

Even more importantly, we have to be brave enough to buck the current 'stimulus' trend by asking whether the global economy might have been artificially overblown through excess debt-induced spending, and whether it is time for some limits to spending, resource consumption, and waste production among the rich. After all, 20% of the world's people now consume 80% of the world's resources. If everyone in the world consumed at Nova Scotian levels, we'd need four planets earth to provide the necessary resources and absorb the waste and greenhouse gases produced.

Rather than stimulating the economy and making it grow again, the GPI therefore suggests creative ways in which we can live very well within a shrinking economy, while achieving our sustainability targets, preventing the harm conventionally associated with economic downturns, and even improving our quality of life.

To give just one example here: Since unemployment is associated not only with economic hardship but also with serious social costs, including higher crime, illness, and disability rates, every action should be taken to avoid layoffs. Instead, reduced workloads can be equitably redistributed in the population at large, with shorter work time options offered to workers in the form of 4-day weeks (3-day weekends), longer vacations, or shorter work days that allow parents to be at home when their children get home from school. Such solutions can increase free time, family time, and volunteer time—all of which shrank during the economic boom period of 1994-2008—and thus improve quality of life.

A federal work-share program in place since 1977 provides financial incentives to avoid layoffs by reducing work time and enabling employees to collect Employment Insurance benefits to supplement a portion of their lost wages. Thus, workers moving to a 4-day week gain 20% more free time for only an 8-10% reduction in pay—a proposition attractive to many workers. Five Nova Scotian firms and more than 1,000 Nova Scotians are already participating in this program. In the 1980s and 90s, the Netherlands managed to reduce its unemployment rate from 12.2% to less than 3% largely though making part-time work more attractive through equal hourly pay, pro-rated benefits, and equal opportunity for career advancement. As a result, the Netherlands today has the highest rate of part time work in the industrialised world and one of the highest rates of labour productivity. Such provisions could be enacted in Nova Scotia to help avoid layoffs through a redistribution of work hours.

In the longer term, our children and our children's children will thank us for consuming less of the world's resources and producing less waste today so that they can inherit a more liveable planet. In sum, because the Genuine Progress Index measures sustainable development and integrates the social, economic, and environmental dimensions of development, it can provide vital early warning signals and a deeper and broader analysis of the current economic crisis than conventional measures, and it can suggest creative solutions to our current economic crisis that are not currently on the political agenda.