

Is National Well-being Declining? **New Measure of Effects of Economic Growth**

A new measure of national economic well-being released today by the Australia Institute shows that living standards for Australians may have been declining since the 1970s.

The Genuine Progress Indicator has been developed internationally as a substitute for GDP (Gross Domestic Product) as a measure of changes in national welfare. The indicator has been constructed for several countries, including the USA, Germany, Britain, Sweden and Italy, and has now been compiled for Australia.

The research, which took six months, has been supported by the CSIRO, the National Citizenship Project and the Australian Bureau of Statistics. The results of the research will be presented at a national conference at the Academy of Science in Canberra on Friday 4th July.

The results of the calculations of the GPI and GDP per person are shown in the figure. Between 1950 and 1996, real GDP per person in Australia increased from a little over \$9,000 to over \$23,000 reflecting steady economic growth over the period. This is usually interpreted as showing that Australians have become progressively better off.

Using the much broader accounting framework of the GPI reveals a very different picture of the changing levels of well-being of the Australian people. Starting at a little under \$9,000 in 1950, the GPI rises over the period by an average of 1.3 per cent each year, compared to 2.1 per cent for GDP, reaching approximately \$16,000 in 1996.

However, from the late 1970s, the pattern changes markedly. The GPI shows no increase at all from the late 1970s to 1996. The decline would have started sooner except for the impact of a substantial improvement in income distribution in the 1970s. This improving trend was reversed at the end of the 1970s and the result has been a sharp divergence between GDP and the GPI.

These results suggest that for the last two decades the benefits to society of economic growth have been wholly offset by the costs. The main reasons for the failure of measured well-being in Australia to continue rising since the late 1970s have been as follows:

- unsustainable levels of foreign debt;
- the escalating costs of greenhouse gas emissions;
- the growing costs of unemployment and overwork;

- the combined impact of a number of environmental problems; and
- a failure to maintain investments in the national capital stock.

The GPI results indicate that continued growth in Australia is relying ever more heavily on the run-down of our stocks of built, social and natural capital. They suggest that the living conditions of Australians are not improving and we are borrowing from the future to prevent our living standards falling further.

Yet GDP is a very faulty measure of changes in national well-being. More pollution is recorded as an addition to GDP, both when it is produced and when it is cleaned up. When meals are no longer prepared in the home but are bought at fast-food outlets, the switch makes GDP growth increase. The AIDS epidemic has meant more medical spending, pushing up the conventional measure of progress. When old-growth forests are cut down the value of the logs adds to national income but nowhere in the accounts are the environmental losses recorded. Unemployment causes enormous social misery, but GDP may be unaffected. If a nation fails to maintain its roads, ports and industrial equipment it may be years before the effects are recorded in GDP.

Although convenient for officials and politicians the national accounts fail to reflect changes in the real health of the nation or even of economic progress itself. GDP is more than just an approximate measure of changes in a nation's economic performance, it has become a holy grail the pursuit of which has been used to justify all sorts of sacrifices.

Despite these deficiencies, political leaders, market economists and the media continue to use GDP as the principal measure of a nation's economic success and the preeminent guide to policy making. Commentators often complain that Australia has fallen from third to sixteenth in the world rankings of GDP per person, yet this tells us nothing at all about changes in national well-being over time or compared with other countries.

“The GPI is not a perfect measure of changes in national well-being but it is a great improvement on GDP. Using GDP as a measure of national progress is like using

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