The Genuine Progress Indicator 2000

The Institute's Genuine Progress Indicator (GPI) for 2000, and its associated interactive website were launched by the ABC's Robyn Williams on December 12. Institute Research Fellow, Richard Denniss, describes what the GPI is, how it differs from GDP as a measure of well-being, and how the new website works. The address for the website is www.gpionline.net

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Many commentators have highlighted the apparent paradox that while GDP is ever increasing, life seems to be getting harder and harder. If the economy is so great, many ask, why haven't I noticed all the benefits? A simple explanation for this puzzle is that economic growth and welfare are not the same thing. On the contrary, economic growth can in many cases be the cause of declining welfare. Increased pollution, traffic congestion and a sense of disconnectedness from the community can all be directly caused by the unbridled pursuit of economic growth.

"economic growth and welfare are not the same thing."

Simon Kuznets, one of the 'fathers' of national accounting, has long been a critic of the use of GDP as a measure of welfare rather than simply as a measure of the extent of market activity. 'The welfare of a nation can scarcely be inferred from a measurement of national income as defined (by GDP)… Goals for 'more' growth should specify of what and for what.' The GPI attempts to measure both the amount of growth as well as the type of growth.

The GPI was first published by the Australia Institute in 1997. The latest publication is an update of the earlier work, adding four years and introducing new variables and making some methodological improvements. An innovation is the construction of an interactive website to allow people to see for themselves the impact of a range of important factors on the overall measurement of national progress.

Unlike GDP, the GPI does not treat expenditure on a home security system in the same way as it treats expenditure on food and clothing. The first is assumed to be 'defensive' expenditure, designed to maintain welfare in the face of a deteriorating environment. The second is assumed to directly provide well-being to consumers.

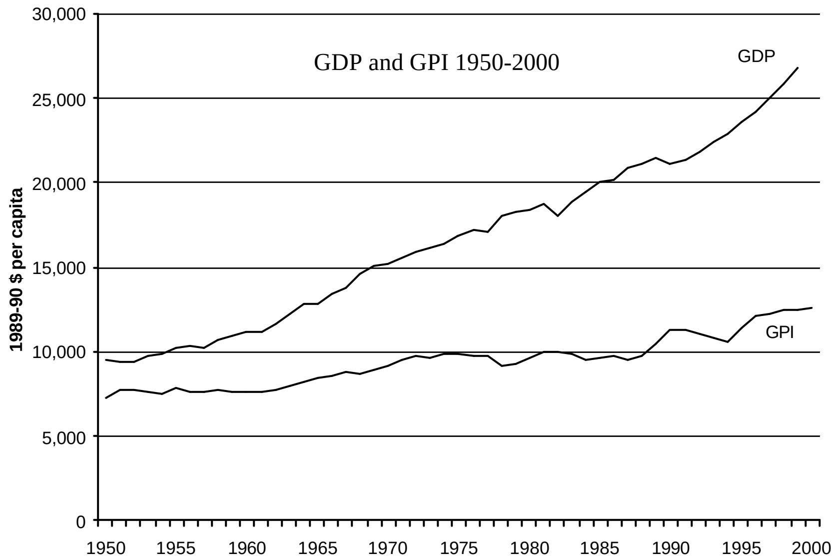
The GPI includes a range of other important factors that are excluded in the GDP. While unemployment reduces GDP, because unemployed people do not produce and consume as much as employed people, the measured effect understates the real costs to society. The GPI, on the other hand, includes an estimate of the financial and psychological costs associated with being unemployed. The GPI also includes the costs of underemployment, hidden unemployment and overwork. In a deregulated labour market hours of work are becoming more unevenly distributed, creating a situation in which overwork and unemployment now exist simultaneously.

For the first time the GPI also includes measures of the costs of problem gambling and an assessment of the value of advertising. Expenditure on gambling has increased exponentially in Australia in recent years. Alarmingly, while problem gamblers account for only 2.1 per cent of the Australian population they account for more than 30 per cent of total expenditure on gambling, losing an average of more than $12,000 each per annum. The GPI deducts expenditure on gambling by problem gamblers from total consumption expenditure because the feeding of an addiction does not enhance welfare.

The GPI also deducts a proportion of the total expenditure on advertising on the assumption that much advertising does little to enhance well-being. While advertisements can be informative, and in turn assist consumers to find appropriate products and low prices, this is not always the case. Many advertisements are designed to be persuasive rather than informative, creating new 'needs' rather than fulfilling existing ones. Similarly, many advertisements are misleading, leading to a decrease in welfare.

The gpionline website allows visitors to determine the impact of some of their preferences on the GPI. For example, in calculating the GPI we have used the wages of cleaners as an indication of the amount of welfare produced by household work. The website allows visitors to determine the impact of relying on higher or lower measures of the value of household work.

Similarly, in the published estimates of the GPI we have assumed that 50 per cent of advertisements contain useful information and 50 per cent are designed simply to be persuasive.



Visitors to the website can see for themselves the impact on the GPI of varying the proportion of informative advertisements. We intend that the gpionline.net site will be of great use to individuals, schools and even policy makers in creating a better understanding of the multi-faceted nature of national progress.

The results for the updated GPI (see figure) show that the welfare of Australian citizens has grown much more slowly than growth in per capita GDP. The figure provides a comparison between GDP per capita and the GPI per capita over the period 1950-2000.

Since 1950, GDP per capita has increased from a little over $9,000 to just under $27,000 in real terms, an increase of almost 200 per cent. Over the same period, however, welfare as measured by the GPI has increased by less than 60 per cent.

Of more concern is the recent slowdown in the rate of growth of welfare. Since 1991 the economy has grown strongly, with GDP per capita rising around $21,000 to just under $27,000 an increase of over 26 per cent in less than a decade. When welfare is measured more comprehensively by GPI welfare rises by less than 4 per cent.

"The GPI represents a much broader indicator of social welfare than GDP."

In recent years governments have focused more and more attention on improving the rate of growth. What is clear from the GPI, however, is that achieving such an objective does not guarantee that welfare will be increased. Trading off more pollution for cheaper electricity, accepting longer

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Tribute to Max Neutze

Professor Max Neutze, who served as Chair of The Australia Institute for its first five years, died last month after a long illness. Max's dedication to the work of the Institute has been vitally important to our vision and to our success so far.

In his address at the launch of the Institute in 1994, Max charged the Institute with the responsibility to public debate in Australia including the importance of community, the roles of the marketplace and government, protection of the environment and a fair go for indigenous Australians. In short, he challenged us to promote and achieve a more just, sustainable and peaceful society.

All who came into contact with Max over the years were struck by his deep wellspring of moral strength – his decency, modesty and fairness, as well as his Christian commitment to making the world a better place.

Max also displayed a high level of intellectual clarity, something from which the work of the Institute benefited time and again. He provided unstinting support and wisdom in equal measure, and filled the role of a true elder.

Speaking at an event to mark Max's passing, another Institute Director, John Nevile, observed that over one hundred years ago the great English economist Alfred Marshall wrote some words that sum up Max's life and work and reinforce his enduring legacy to the Institute:

"…nearly all the founders of modern economics were men of gentle and sympathetic temper, touched with the enthusiasm of humanity. They cared little for wealth for themselves; they cared much for its wide diffusion among the masses of the people."

Max has made the world a better place. He is greatly missed.

Clive Hamilton

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hours and reduced job security for faster employment growth, and diminishing the stock of environmental assets to provide a short- term flow of goods may increase GDP, but the effects of such practices on welfare are entirely ambiguous. The GPI represents a much broader indicator of social welfare than GDP. It shows that current policies are failing to improve substantially the welfare of citizens. Unless policy makers begin to rely on broader indicators of welfare than GDP then they will continue to pursue policies which, while increasing the size of the market, do little to improve the well-being of Australian citizens. ■

Tracking Well-being in Australia by Clive Hamilton and Richard Denniss is available from the Institute. Copies are free to members on request.

Charities and political parties

Earlier this year, Australia Institute research revealed that political parties could access GST concessions designed to benefit charities. The research stimulated contradictory statements from the ATO and the Prime Minister, but finally ATO's Deputy Commissioner Rick Matthews admitted to a Senate Committee that political parties were classified as charities for the purposes of the GST.

Calls by Green Senator Bob Brown to amend the GST laws to exclude political parties from the concession were not supported by either the Labor Party or the Democrats.

But tax lawyer Dale Boccabella remains concerned the Government is not correcting what appears to be a technical drafting error.

"What is the policy basis underlying this provision" he asks. "Surely it is for charitable institutions delivering welfare?"

In Mr Boccabella's view, lumping political parties in with charities is anomalous. "They are not delivering welfare services, and other non-profit bodies cannot access the concession. If, on the other hand, the policy is simply to cover supplies by non-profit organisations, the government should amend section 38-250 to make clear there is blanket access for all non-profit bodies."

An independent inquiry into the definition of charities and related non-profit organisations was established by the Commonwealth government in August, reporting early next year.

Corporate Welfare
Public Accountability of Industry Assistance

The recent release of The Australia Institute's discussion paper* Corporate Welfare: Public Accountability for Industry Assistance *proved to be well-timed. Just after the release, South Australia announced that it had reached a deal with the Email group to relocate one of the company's plants from Melbourne to Adelaide. It has been alleged that the secret agreement with Email cost the South Australian taxpayer some $10,000 per job. As John Howe, co-author with Ches Baragwanath of the Institute paper explains, these events highlight the complete lack of account-

While protectionism is presently derided as a form of industry policy by mainstream economists and politicians, industry 'assistance' is on the increase among State governments in Australia as they compete for investment and industry in the so-called global marketplace. In 1996, an Industry Commission report estimated that Federal, State and Territory governments provided more than $16 billion per year in financial and other assistance to industry, including subsidies, revenue forgone and market protection. This figure represents over 3% of Australia's GDP.

"Current industry assistance arrangements are virtually devoid of the type of transparency and accountability normally required of government spending"

Public assistance to industry is not necessarily a bad thing. It represents a legitimate way for governments to participate in economic activity at a time when neo-liberal theory limits the role of government to that of a market facilitator. But current industry assistance arrangements are virtually devoid of the type of transparency and accountability normally required of government spending. Disbursement of assistance is treated as a private commercial matter between parties and public access to such information is very limited. It is therefore very difficult to assess the how much governments spend or on what basis it provides assistance.

At a time when 'mutual obligation' is being imposed on the recipients of social welfare, businesses that receive public assistance have almost no obligation to disclose sufficient information that would satisfy public accountability requirements. No wonder that such incentives are often dubbed 'corporate welfare'.

Investment Attraction

The most prominent form of industry assistance is the use of incentives to attract new investment. Governments often prefer to target so-called 'footloose' industries such as Call Centres as they are more easily able to move their operations to new locations. However, footloose businesses can leave a region just as easily as they arrived, often after receiving substantial public assistance.

Battles between State governments to attract new business occur in an accountability vacuum and under conditions which produce a secret bidding 'war'. For example, Victoria, NSW and Queensland have recently been involved in a bidding war over where to locate Virgin Airlines' headquarters. It is estimated that Queensland, the eventual victor, paid a high price – in the region of $10 million.

The Federal government might encourage fair competition among businesses, but it does not apply similar rules and protocols to combat between States, to the detriment of consumers and taxpayers.

"Cooperation is a more effective organising principle for the expenditure of public funds."

Moreover, given that the business vendor often 'wins' at the expense of the Australian public, competition between States is often inappropriate. Cooperation is a more effective organising principle for the expenditure of public funds.

Ensuring Public Accountability

The traditional notion of public accountability – that government bureaucracy is accountable to the parliament – needs to be broadened to take account of the increase in contracting out of public services and government facilitation of private sector activity.

This would require private sector recipients of government assistance to be held accountable to values that are applied generally in the public sector, both in terms of government processes and on the basis of broad economic and social justice criteria.

Industry assistance should be structured by public law notions of natural justice and procedural fairness. Accountability would be enhanced if State governments were to reevaluate the legal and institutional framework governing industry assistance. Industry incentive programs could be enshrined in legislation encapsulating policy goals, performance standards and monitoring mechanisms.

The Commonwealth could consider formulating an agreed set of protocols to be observed by competing States. If all States were required to disclose information then no State could be disadvantaged by doing so. Similarly, companies would be forced to accept public accountability obligations, including the release of information, as a condition of receiving public funds.

It is clear, however, that nobody wants to rock the industry assistance boat. Industry is content with a process that allows it to ratchet up offers of assistance from competing States. States, particularly those of the 'rust belt' variety or those with impending elections, appear satisfied with a system that allows them to bid up taxpayers' funds with impunity, confident that such largesse will remain concealed by a veil of commercial-in-confidence. In this context, it is not surprising that the Industry Commission recommendations aimed at improving the system have fallen on deaf ears. ■

Academic Freedom and Commercialisation of Australian Universities

The increasing emphasis on commercial funding of the Higher Education sector, both in Australia and overseas, has led to concerns based on some worrying instances and considerable anecdotal evidence that commercial arrangements may be undermining academic freedom.

Despite widespread concern, however, little empirical investigation of the nature and extent of this process has been undertaken. Because of this, the Australia Institute has commissioned a survey of academics' perceptions about the state of academic freedom and commercialisation in Australian universities. To our knowledge, no such study has yet been conducted in Australia, or for that matter, in the world.

The study has concentrated specifically on the social science disciplines in order to discover the extent to which trends to commercialisation may be affecting those on whom we rely for the quality of our social and political debates.

Social science academics in a sample of thirteen Australian universities were sent a questionnaire that sought quantitative and qualitative data about how, if at all, commercial funding arrangements are affecting academic freedom. The questionnaire also asked academics to define the concept 'academic freedom' in a contemporary context.

The study is being conducted, in close collaboration with The Australia Institute, by the Centre for Professional and Vocational Education at the University of Canberra. Preliminary results are showing distinct but complex implications for academic freedom that interact with broader problems associated with commercialization – such as increased workloads, increased pressure to obtain external funding and to run courses that attract large student numbers. Although the open-ended sections of the questionnaire have proven a rich source of qualitative data, a series of follow-up interviews is also planned in order to explore the subtle dynamics of this sensitive issue in greater depth.

The study coincides with a Senate Inquiry into the Higher Education Sector. Results of the study will be published in an Institute Discussion Paper in February next year. ■

'New Families' Research

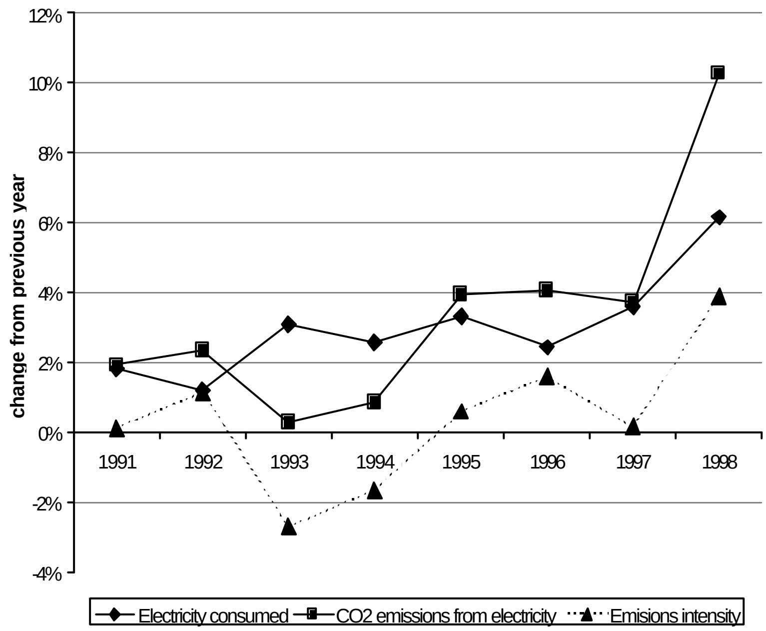
Public debate about families and family policy in Australia and in other countries has concentrated heavily on the problems and social costs associated with 'family breakdown'. Whilst social commentators have often lamented the social and economic costs of high divorce rates, there has been little examination of the ways in which new families are adapting to the new realities, learning from past mistakes and continuing to transfer positive values to children. To fill this gap, the Institute has recently commenced a research program in the area of the changing roles of Australian families and policies to support new family arrangements.

Families do not stand outside wider society in sacred isolation. Much as some would like to protect 'the family' against the forces of change, the reality is that family change is both cause and consequences of wider social and economic forces. It is highly unlikely that we will experience a widespread or sustained swing back to the nuclear family as the only legitimate form of family life.

Australia needs an informed public debate about how we can develop positive attitudes and policy responses that reflect and support the new structures and roles of families.

Redefining Efficiency
Microeconomic reform in the electricity industry

Lower prices as a result of microeconomic reform in the electricity sector have produced significant 'external costs' in higher pollution according to a recent paper by Clive Hamilton and Richard Denniss published by the Productivity Commission. Richard Denniss reports.



Microeconomic reform is concerned with the efficient use of scarce resources. But in recent years debates over the meaning of 'efficient' have come to the fore, especially when it has become apparent that various aspects of microeconomic reform have been associated with quite negative consequences – unemployment, reduced quality of service and declining regional services.

Recognition of such consequences has led to greater care being taken when weighing up the social and the economic consequences of particular policies – except it seems, in the electricity industry. Microeconomic reform in the electricity industry has resulted directly in an increase in greenhouse gasses of over 10 million tonnes in 1998.

The deregulation of the electricity industry was intended to be the first step towards achieving greater reliance on low emission natural gas and renewables in the generation of Australia's electricity. However, due to the poor design of the deregulation process, the opposite has been the case.

As shown in the figure, greenhouse gas emissions have grown steadily since the introduction of market reforms in 1996. There are two main reasons for this growth. First, the market price of electricity for industrial users has fallen substantially in recent years. This reduction in price was the result of the increase in interstate competition associated with the reform process.

While price reductions are usually seen as an indication of increased 'efficiency', this does not hold when significant external costs are associated with the product in question. Lower prices in the electricity industry result in greater consumption which simply results in an increase in pollution. In the same way, reducing the costs of tobacco manufacture, for example, could lead to cheaper cigarettes. But to the extent that it encouraged smoking and caused ill health through passive smoking, the outcome is unlikely to be considered 'efficient'.

The second reason for the growth in greenhouse emissions is that microeconomic reform has led to greater reliance on brown coal as a source of electricity. Although brown coal emits almost twice the greenhouse gasses as a gas fired power station of the same size, it is more profitable to supply electricity from the dirtier source. If a carbon tax or emission trading regime were in operation then operators of cleaner power sources would be able to compete on a level playing field.

Overall the impact of microeconomic reform in the electricity industry has been poorly designed and poorly implemented. The resulting increase in greenhouse gases comes at a time when the Australian government is supposedly doing all it can to meet its target under the Kyoto protocol.

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Where to for Climate Change Policy?

Institute Executive Director, Clive Hamilton, attended the International Sixth Conference on climate change in The Hague. In this article he reports on the main issues at stake and discusses the implications of the stalled outcome.

In the three years since Kyoto the debate has been increasingly polarized. Some countries (Australia and the USA) have sought to exploit loopholes while others (the European Union) have attempted to close off loopholes. The key issues at COP 6 were those relating to the admissibility of carbon sinks, the shape of the compliance regime, the operation of the Clean Development Mechanism, and the structure of emissions trading.

Three key background developments provided the negotiating environment. Firstly, the science of climate change has been firming and the alarm bells are ringing more loudly. As Robert Watson, Chair of the Intergovernmental Panel on Climate Change, said to the conference:

> The question is not whether climate will change in response to human activities, but rather how much …, how fast … and <u>where</u>.

This has been reinforced by several major climate events in Europe which have been openly attributed to climate change, including the November 2000 floods in the UK and the devastating storms in France in 1999.

Secondly, there is a sharp shift in business sentiment. Many major corporations are now making public statements that accept the science and the importance of global action. The desire of corporations to be the vanguard of the new era has already resulted in a flowering of technology and huge sums invested in new sources of energy, all of which were on display at The Hague. In the near future, the point will be reached where investments threatened by the failure of Kyoto will outweigh investments threatened by emission reductions.

Thirdly, although the different positions of the EU and the USA regarding loopholes was well known, no-one was prepared for the breath-taking ambit claim lodged by the Americans in early October in which they called for a definition of sinks so wide as to absolve it of any need to cut domestic emissions. This claim can only be interpreted as an audacious negotiating tactic to set the boundaries between the EU and the USA so far apart that any meeting in the middle would be to the advantage of the US position.

In the end it was this ambit claim that caused COP6 to implode without agreement, leaving a host of other resolutions without formal agreement.

"In the face of inexorable climate change, and a firm scientific consensus, action to cut emissions is inevitable."

But the situation in the US with respect to climate change is not as bleak as it appears. It will take only a few big US corporations to resist congressional pressure for the Senate to soften its position. Even Senator Chuck Hagel – widely seen as the tyrannosaurus rex of the fossil industries – conceded at the conference that he was now worried about the changing climate and that something would need to be done.

Was the outcome of COP6 a disaster?

There are two ways of looking at the outcome of COP6. On the one hand, it could be argued that the Kyoto Protocol was a hard-won, but weak first step and that the EU's uncompromising stance (especially of France and Denmark) missed the opportunity to take the process to the next stage.

However, a longer-term view would argue that in the face of inexorable climate change, and a firm scientific consensus, action to cut emissions is inevitable. In this sense, the EU decision to reject the 'compromise' deal developed by UK Deputy Prime Minister John Prescott – a deal that would have gutted an already weak protocol – was correct.

According to this view – one I am inclined to – the US will be forced to come to the negotiating table ready to agree to strong measures sooner or later.

Indeed, there is now a good chance that the Protocol will enter into force without US participation. It is possible that a combination of other countries will meet the target of 55% of Annex B emissions, shutting US corporations out of an enormous surge of investment and technological development. Corporate America would then force the US government to join an agreement that had been finalized on European terms. If the US continued to refuse, other countries may be forced to take measures to protect their trade interests.

Like the rest of the world the US is vulnerable to climate change. Hurricanes, floods and forest fires will increasingly be attributed to greenhouse gases and the public will demand a response. It may take a large body count to get the US to take responsibility for its greenhouse pollution, but it may well come to this.

While there is no doubt that a Bush presidency will be a setback, it is likely to be only temporary. Indeed, it is even possible that only a conservative President and one from an oil state (a state which also has a growing wind energy sector) will be able to carry the most resistant corporate interests into serious commitments to cut emissions. ■

INSTITUTE NOTES

New Publications

- Clive Hamilton and Richard Denniss *Tracking Well-being in Australia: The Genuine Progress Indicator 2000* Discussion Paper 35
- Ches Baragwanath and John Howe *Corporate Welfare: Public Accountability for Industry Assistance* Discussion Paper 34

Forthcoming Publications

- Academic Freedom, due Jan/Feb 2001
- New Families, due Feb/March 2001

New Board Members

Farewell to Directors Tor Hundloe, Marian Simms and Russell Rollason. We would like to take this opportunity to thank them for all their support, assistance and hard work over the years on behalf of the Institute.

Welcome to new Directors Mary Crooks and Molly Harriss-Olson. Mary Crooks has had extensive involvement in the public policy arena. She is a founding member and current convener of the Victorian Foundation, a think tank promoting economic and social justice. Mary is also Executive Director of the Victorian Women's Trust. Molly Harriss-Olson is a Director of Eco Futures Pty Ltd, convenor of the national Business Leaders Forum on Sustainable Development and an internationally recognised leader on sustainability. We warmly welcome them both to the Institute and look forward to working with them.

Merry Christmas to all our Members and Friends from the Staff and Board of the Institute.

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The underlying cause of this policy failure is the confusion between what is competitive what is efficient. Arguments that increased competition leads to increased efficiency are only valid under a strict set of assumptions. When there is a large number of buyers and sellers, all of whom who are equally well-informed, none of whom have any market power and where the product being sold has no 'external' effects on anyone else, increased competition may increase efficiency. This is not a useful description of the Australian electricity market.

There should be no tension between microeconomic reform, with its objective of efficiently using all resources, and the protection of the natural environment. Economic theory makes no distinction between natural resources and other resources. Economic policy in Australia, on the other hand, has continuously ignored the impact of its policies on the way in which the natural environment, including the atmosphere, is used. Microeconomic reform has led to a massive increase in carbon dioxide emissions. Such an outcome should be of as much concern to economists interested in efficiency as it is to citizens interested in sustainability. ■