

From the Los Angeles Times

<http://www.latimes.com/news/opinion/la-oe-costanza10mar10,0,5656929.story>

Our three-decade recession

The American quality of life has been going downhill since 1975.

By Robert Costanza

March 10, 2008

The news media and the government are fixated on the fact that the U.S. economy may be headed into a recession -- defined as two or more successive quarters of declining gross domestic product. The situation is actually much worse. By some measures of economic performance, the United States has been in a recession since 1975 -- a recession in quality of life, or well-being.

How can this be? One first needs to understand what GDP measures to see why it is not an appropriate gauge of our national well-being.

GDP measures the total market value of all goods and services produced in a country in a given period. But it includes only those goods and services traded for money. It also adds everything together, without discerning desirable, well-being-enhancing economic activity from undesirable, well-being-reducing activity. An oil spill, for example, increases GDP because someone has to clean it up, but it obviously detracts from well-being. More crime, more sickness, more war, more pollution, more fires, storms and pestilence are all potentially positives for the GDP because they can spur an increase in economic activity.

GDP also ignores activity that may enhance well-being but is outside the market. The unpaid work of parents caring for their children at home doesn't show up in GDP, but if they decide to work outside the home and pay for child care, GDP suddenly increases. And even though \$1 in income means a lot more to the poor than to the rich, GDP takes no account of income distribution.

In short, GDP was never intended to be a measure of citizens' welfare -- and it functions poorly as such. Yet it is used as a surrogate appraisal of national well-being in far too many circumstances.

The shortcomings of GDP are well known, and several researchers have proposed alternatives that address them, including William Nordhaus' and James Tobin's Measure of Economic Welfare, developed in 1972; Herman Daly's and John Cobb's Index of Sustainable Economic Welfare, developed in 1989; and the Redefining Progress think tank's more recent variation, the Genuine Progress Indicator. Although these alternatives -- which, like GDP, are measured in monetary terms -- are not perfect and need more research and refinement, they are much better approximations to a measure of true national well-being.

The formula for calculating GPI, for instance, starts with personal consumption expenditures, a major component of GDP, but makes several crucial adjustments. First, it accounts for income distribution. It then adds positive contributions that GDP ignores, such as the value of household and volunteer work. Finally, it subtracts things that are well-being-reducing, such as the loss of leisure time and the costs of crime, commuting and pollution.

While the U.S. GDP has steadily increased since 1950 (with the occasional recession), GPI peaked about 1975 and has been relatively flat or declining ever since. That's consistent with life-satisfaction surveys, which also show flat or dropping scores over the last several decades.

This is a very different picture of the economy from the one we normally read about, and it requires different policy responses. We are now in a period of what Daly -- a former World Bank economist now at the University of Maryland -- has called "uneconomic growth," in which further growth in economic activity (that is, GDP) is actually reducing national well-being.

How can we get out of this 33-year downturn in quality of life? Several policies have been suggested that might be thought of as a national quality-of-life stimulus package.

To start, the U.S. needs to make national well-being -- not increased GDP -- its primary policy goal, funding efforts to better measure and report it. There's already been some movement in this direction around the world. Bhutan, for example,

recently made "gross national happiness" its explicit policy goal. Canada is developing an Index of Well-being, and the Australian Treasury considers increasing "real well-being," rather than mere GDP, its primary goal.

Once Americans' well-being becomes the basis for measuring our success, other reforms should follow. We should tax bads (carbon emissions, depletion of natural resources) rather than goods (labor, savings, investment). We should recognize the negative effects of growing income disparities and take steps to address them.

International trade also will have to be reformed so that environmental protection, labor rights and democratic self-determination are not subjugated to the blind pursuit of increased GDP.

But the most important step may be the first one: Recognizing that the U.S. is mired in a 33-year-old quality-of-life recession and that our continued national focus on growing GDP is blinding us to the way out.

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