GPI offers useful counterpoint to GDP

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Economics and reality. Let's continue the conversation.

Last week, in this very space, we highlighted the battle royal between Vermont independent Rep. Bernie Sanders and Fed Chairman Alan Greenspan. The two gentlemen traded words on Capitol Hill two weeks back. Sanders argued that Greenspan was out of touch with reality, and Greenspan argued that Sanders was just plain out of touch.

Who was right doesn't really matter. It will still cost a buck to get aboard the Muni on Monday morning.

The questions this exchange raised, however, struck a chord: Are economists in touch with reality? Are the existing indicators worth the reams of paper they're printed on? Does Alan Greenspan need a new toolbox to fix the economy?

The response from my highly exclusive readership was mixed and heated. Some argued that Greenspan is truly a country club duffer who wouldn't know economic growth unless it knocked over his $8 martini. Others had the same to say about me. Still others pointed out positive, constructive measurements that could help us get a real read on the economy.

One such measurement caught my eye. It's called the GPI, and it was thought up by the folks at Redefining Progress, an Oakland nonprofit group that thinks the big thoughts. Back in 1995, one of the think tank's founders, Cliff Cobb, created a new measure of economic growth that went beyond the standard measure used by economists for decades, that being the gross domestic product, or GDP.

The GDP is essentially an aggregate of all goods and services in the economy. If it goes up, economists are happy. If it doesn't, there's a lot of hand-wringing. Just last week, the nation's fiscal scientists concluded that the GDP was showing signs of life and used that to bolster their thoughts on recovery. Back in Oakland, Cobb and his cohorts were shaking their heads.

The alternative indicator they dreamed up nearly a decade ago is called the GPI, or genuine progress indicator. To calculate the GPI, you take the GDP and subtract and add other social measures that affect the health of the economy. According to the Redefining Progress Web site (www.rprogress.org), the GPI "adds in the economic contributions of household and volunteer work, but subtracts factors such as crime, pollution and family breakdown."

RP Executive Director Michel Gelobter puts it best: "It's the GDP minus heart attacks, prison time and clear-cut forests. But adding back in volunteerism and time people spend with their families. Basically it tracks all the flows of income that are not in the cash economy."I know. It sounds pretty goofy. Downright squishy. But I think it's a start. At least it takes into account heart attacks, which happen to be a great "for instance."

"If you think about heart attacks, that's economic growth that counts toward the GDP," said Gelobter. "That's cash in the economy spent on drugs, hospitals, equipment, etc. Whereas in the GPI, we take out what we call 'illth. ' Sure, it adds to the economy, but it's not stuff we like. When people are unemployed, for example, there are cash expenditures that count toward the GDP.

Welfare payments, for instance. The GPI tries to count the growth in wealth that we like, that we think is useful and good. It tries to take out that which doesn't represent progress."

It's a great idea, but the chief problem is: Who sets the negative value of a heart attack? In this academic effort, RP sets the values. And, for that reason, I stress this is only an academic exercise, albeit worthwhile.

So, what does it tell us? The last time the GPI was calculated, in 2000, it showed that GDP outstripped GPI by about $27,000 per capita. Dating back to 1973, GDP has risen steadily while GPI has bumped along a flat trajectory. Here are the raw numbers, according to Redefining Progress: "The GPI rose slightly in 2000 to reach $2.63 trillion (as measured in 1996 dollars). This represents growth of $64 billion (or 2.5 percent) over its 1999 level. Per capita GPI rose by $148 (or 1.6 percent) to $9,550.

These figures compare to a GDP in 2000 of $9.22 trillion (as measured in 1996 dollars). The GDP grew in 2000 by $348 billion (or 3.9 percent). Per capita GDP rose by $978 (or 3.0 percent) to $33,497."

What it tells me is pure confirmation. Anyone with half a whit of sense should be able to see that pure spending does not a model make. There is good spending and bad. There are myriad accounting holes in simply sum-totaling our economy.

Consider the clear-cutting analogy made earlier. "In the case of clear- cutting, the GDP counts that sale of wood as growth," said Gelobter. "But cutting down a 30-year old tree is a liquidation of a 30-year-old capital item.

To count that as cash income is an accounting error. It's a depreciating error."
I agree. And I simply can't wait to read my e-mails Monday. Drop me a line. Tell me what you think. Let's get this economy thing figured out. It obviously won't happen otherwise.