

Vermont's Genuine Progress Indicator

Eric Zencey

In the spring of 2012, Vermont became the second state to officially endorse the Genuine Progress Indicator (or GPI) and the first to do so by statute. (In Maryland the GPI research was authorized by an executive order of the Governor). The GPI is an alternative indicator set—an alternative to Gross Domestic Product, or GDP, which simply measures the volume of monetary transactions in an economy. The GPI does a much better job of measuring overall economic wellbeing because it deducts the environmental costs of economic activity from the benefits that are produced. In effect, the GPI applies the principles of double-entry bookkeeping to the economy as a whole. Any businessperson knows you have to deduct expenses from income or you're going to go broke, and that's what GPI aims to do—keep us from going broke, environmentally.

In Vermont the Genuine Progress Indicator is being compiled by Fellows and students at the Gund Institute for Ecological Economics. We're following the Maryland model closely, which will allow for comparability between the two states. (The Maryland model was influenced by the work of Gund scholars; the Gund Institute was originally located at the University of Maryland, and came to the University of Vermont in 2002.) GPI is an emergent standard among alternative indicators, and our expectation is that as more and more states get interested in this kind of economic accounting, the Maryland-Vermont model will be copied elsewhere. Interest in GPI is definitely growing. The Demos Foundation has sponsored working conferences of GPI practitioners for the past two years. The first meeting, in 2012, drew participants from four states. The second meeting, held in early June in Baltimore, drew participants from nineteen states.

Basically, the GPI is produced by taking a figure for the overall level of Personal Consumption spending in the state and then making a variety of adjustments to it, primarily by subtracting costs that the GDP approach doesn't count and adding benefits that GDP ignores. For instance, the GPI counts increased water pollution, air pollution and noise pollution as costs. So too with deforestation, loss of wetlands, and loss of farmland. The GPI also counts some social costs and benefits. Time lost to commuting is a cost. So are the losses incurred by automobile accidents and lost leisure time from working additional hours. Un- and underemployment are treated as costs, as well.

On the benefit side, GPI counts economic value that's created but not sold in the market. This category includes volunteer work and also the significant amount of work that people do for themselves in their households. If you cook, clean, do child

or elder care in your home, or do some home repair and maintenance yourself, GDP ignores this contribution to your wellbeing, even though what you're producing is economically valuable. If you "outsource" the work, GDP goes up—though you aren't increasing the amount of benefit you're getting, you're simply paying someone to do work you used to do yourself. GPI tries to count the sum total of economic benefit we enjoy, not the amount of money we paid to get it.

The first adjustment that GPI makes to the figure for Personal Consumption expenditure in the state is an adjustment for income inequality. There is a standard measurement of income inequality—the Gini Coefficient—that is produced by the Census Bureau, and this is what is used in GPI compilations. The adjustment reflects this basic idea: if personal income in Vermont were to go up, but all of the increase were to be gained by just one person, we could hardly say that Vermonters as a whole were better off. By tracking changes in income inequality, the GPI provides a better overview of the general level of economic wellbeing in the state.

One problem that GPI fixes can be called the Tropical Storm Irene problem. Because GDP counts the dollar value of transactions, it counts consumer durables and public infrastructure, like highways, as having economic benefit only in the year in which they're paid for. But highways, cars and washing machines give us years and years of service. The GPI counts the ongoing value of those services as a positive contribution to our economic wellbeing. This means that unlike GDP, GPI can show a loss when those services are denied to us because roads and households are destroyed by a tropical storm. If you're looking just at GDP, you have to conclude that hurricanes and superstorms are economically beneficial because they lead to more spending as we try to restore the quality of economic life that we had before the damage. That's just absurd.

One concern that is often voiced about the GPI is that there are judgment calls and discretionary choices in some of the variables. How much is clean water worth? Clean air? Aren't these subjective values, and doesn't that mean there is room for political influence and bias? The answer, frankly, is no. These valuations may be subject to interpretation and variance, but that doesn't mean they're subjective. There are established methods for finding the value of things that aren't sold in markets and the GPI uses a variety of them. As long as decisions about which method to use are made by consensus among the community of GPI researchers rather than politicians, we don't have to worry about political bias creeping in.

Finally, I know I speak on behalf of my colleagues at the Gund when I say that it is our hope that the VT GPI will be reported annually so that it can serve as a useful supplement to other data that describe the state and its economy. Because GPI aims to measure ecologically sustainable economic wellbeing, regular compilation of it will allow Vermonters to see when we are producing economic benefit by consuming irreplaceable resources—a trade-off that isn't sustainable. Not only will the GPI count the costs and benefits of economic activity more accurately, it will help point the way to the ecologically sustainable economy that we all know we

must develop.

Eric Zencey is a Fellow of the Gund Institute of Ecological Economics at the University of Vermont. A long-time resident of central Vermont, he is the author, most recently, of *The Other Road to Serfdom and the Path to Sustainable Democracy* and (with Elizabeth Courtney) of *Greening Vermont: The Search for a Sustainable State*.