1978 was our wonder year

Bob Holmes

PECULIAR fashion choices, an oil crisis and embarrassing hairstyles notwithstanding, the 1970s were the good old days. A new study of global wealth says prosperity peaked at the end of that decade. Economic policymakers take note: we have been heading downhill since 1978 (see "1978: In this year...", opposite).

Governments have tended to build economic policies around gross domestic product (GDP), the sum of all monetary transactions in an economy. GDP has risen fairly steadily – and often dramatically – since the second world war, implying the world has become more prosperous.

Critics point out, however, that GDP only tells part of the story (see graphs, right). Its measure of prosperity fails to account for social factors and environmental costs. Oil spills and crime, for example, increase GDP because money must be spent on clean-up and replacement of lost goods, yet few would claim that they increase the general well-being of a state.

To correct this, many economists have begun searching for more comprehensive measures of economic progress that reflect the overall state of a country. One that has been widely used is the Genuine Progress Indicator (GPI), which adjusts expenditure in 26 ways to account for social and environmental costs, such as pollution, crime and inequality, and for beneficial activities where no money changes hands, such as housework and volunteering.

Ida Kowiszewski and Robert Costanza at the Australian National University in Canberra and their colleagues gathered estimates of GPI for 17 countries – totalling more than half the world’s population and GDP – and assembled them into the first-ever global picture of how GPI has changed over the years. They found that GPI per person peaked in 1978 and has been declining slowly but steadily ever since (Ecological Economics, doi.org/m53). This contrasts sharply with the steady increase in GDP per capita since then, and implies that social and environmental woes have outpaced the growth of monetary wealth.

"We’re not making a social profit," says Costanza. In particular, growing inequality of incomes and environmental degradation are the biggest factors dragging GPI down.

The study confirms the hunch of many environmental economists that the costs of economic growth have outweighed its benefits for several decades. "A lot of people working in the field were pretty sure it happened, but didn’t get detected in GDP," says Jacqueline McGlade of University College London, and former head of the European Environment Agency.

Not all economists agree that GPI is an accurate measure of overall welfare. Nicolas Kosoy, an ecological economist at McGill University in Montreal, Canada, argues that no single indicator can capture the complexity of the interplay between economics, environment and social welfare.

Rose-tinted spectacles

The rise of GDP hides social and environmental woes that the Genuine Progress Indicator (GPI) takes into account

GLOBAL

GPI suggests that the world is not as prosperous as GDP indicates

US

In the US, GPI peaked in 1978 and has been dropping slightly since

UK

The 1970s economic crisis, unemployment and austerity measures caused a dip in GPI in the late 1970s and 1980s

Trends are shown relative to a 1990 baseline

SOURCE: KUBISZEWSKI ET AL, ECOLOGICAL ECONOMICS, DOI:10.1016/J.ECOLECON.2013.04.006
There is no unanimity that the world is worse off than it was. "If you start looking at the broader picture of things that contribute to quality of life, I think there's no doubt that the average person in developing countries is better off now than in the 1970s," says Marianne Fay, chief economist for the World Bank's Sustainable Development Network in Washington DC.

McGlade points out that over the past two decades, world poverty rates have fallen from 42 per cent in the mid-1990s to a projected value of 15 per cent for 2015, representing half a billion people lifted out of poverty. Other indicators also support this view. Life expectancy has risen an average of 12 years for women and 11 years for men worldwide in the past 40 years. And according to surveys that ask people to assess their well-being, life satisfaction continues to rise in a majority of countries, says Ed Diener, a happiness researcher at the University of Illinois at Urbana-Champaign (Journal of Personality and Social Psychology, doi.org/m59).

GPI and other indicators like it might not be perfect, but they can help policy-makers do a better job of balancing the costs and benefits of economic development, says McGlade. "As these accounting methods take root, governments will be able to see very quickly how their management causes problems in environmental viability," she says. The US states of Maryland and Vermont now use GPI in their economic planning, and several other states are phasing it in. As a result, environmental and social costs will start to figure more directly in government decisions. "For once," says McGlade, "I'm reasonably optimistic."