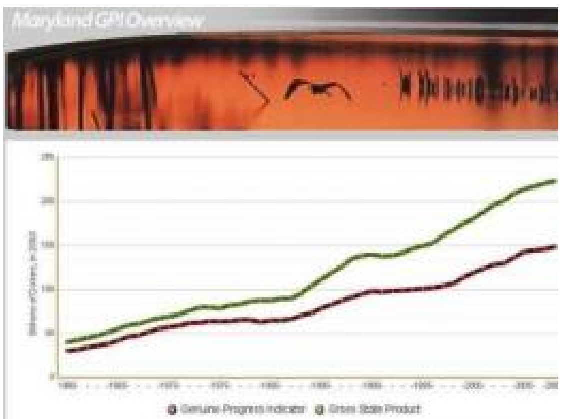
'Main Street' economic conditions misread by GDP

February 18 2010



"In 2000, the classic economic measure showed Maryland more than 50 percent wealthier than we actually were, as measured by the greener GPI." says University of Maryland researcher Matthias Ruth. Credit: University of Maryland and Maryland Department of Natural Resources

Traditional gauges of economic activity severely overstate the standard of living as experienced on 'Main Street,' say University of Maryland researchers, who have worked with their state officials to apply a more accurate and greener index.

Maryland recently became the fourth U.S. state to adopt the Genuine Progress Indicator (GPI) as a supplement to the traditional state-level economic index, the Gross State Product (GSP).

"This is not merely a question of dueling statistics - the difference in the two figures can be startling and represents very different pictures of our standard of living," says Matthias Ruth, director of the University of Maryland's Center for Integrative Environmental Research (CIER), which calculated the GPI for the state.

"In 2000, the classic economic measure showed Maryland more than 50 percent wealthier than we actually were, as measured by the GPI." Ruth explains.

"The traditional measure is inflated by costs that are counted as if they were benefits, such as the conversion of agricultural lands and coastal areas to strip malls and developments," Ruth adds. "It failed to capture many aspects of life we value - from environmental quality to livable communities."

To remedy the costs and benefits excluded by the GPS, the GPI formula includes 26 economic, social and environmental factors.

"This tool allows us to account for the environmental and social costs of problems like air pollution, crime and income inequality, as well as the values of benefits like clean water, education and volunteerism," says Maryland Governor Martin O'Malley.

Armed with the more comprehensive GPI data, officials will have a more meaningful guide to policy, Ruth concludes. He adds that this data might have made a difference had it been available back in 2000.

"We might have moved more rapidly towards sustainable practices - may have invested more in communities that hold together, rather than roads that spread us apart, invested more in local jobs rather than an economy that moves them to far-flung places on this globe, may have invested more in energy technology that harnesses local, renewable resources like wind and solar, instead of burning more nonrenewable fossil fuels," Ruth says.

As members of the working group of Maryland officials that selected the measure, Ruth and his colleagues at CIER coordinated data collection and calculated the GPI back to 1960. They also developed a unique interactive online modeling tool that allows policy-makers and citizens to forecast economic progress through 2060.

GPI FINDINGS AND FORECASTS

Into the 1970s, the difference between the GPI and the Gross State Product was relatively small. But by 2000, the GSP was more than 50 percent greater than the GPI, Ruth found. "A goal now should be to identify and reverse those drivers that made the two diverge," he concludes.

Ruth also developed a unique dynamic modeling tool that enables policymakers and the public to forecast how environmental, social and economic policies and investments will affect prosperity in 2060.

The CIER modeling shows that by 2060, maximizing efforts to create green jobs, clean energy savings and smart growth could each double the GPI. While several nations and three U.S. states (Vermont, Minnesota and Ohio) have calculated their GPI, no other jurisdiction has developed a publicly accessible modeling tool.

More information:
-- http://www.green.maryland.gov/mdgpi/indicators.asp
-- http://forio.com/service/netsims/mruth1/gpi_model_111909/index.html

Provided by University of Maryland