VERMONT GENUINE PROGRESS INDICATOR – a primer

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Gross Domestic Product National income accounting and the development of the Gross Domestic Product (GDP) emerged out of the Great Depression to track the nation's total economic activity. GDP is the value of goods and services produced within a national economy over one year. The counterpart at the state level is the Gross State Product (GSP). Through the years this single metric became the default measure of societal well-being, yet GDP was only designed to measure economic transactions, and thus only a portion of our material well-being.

GDP does not measure Comprehensive Well-Being. The shortcomings of GDP as a measure of well-being have long been recognized by a substantial body of research.[1] This work has culminated in estimates of the Genuine Progress Indicator (GPI) for dozens of countries, regions, and states. GPI, and the years of research supporting it, aims to measure the quality of an economy and its social and environmental relations, not simply the quantity of financial transactions between buyers and sellers. *Therefore the purpose of the genuine progress indicator is to measure the State of Vermont's economic, environmental, and societal well-being as a supplement to the measurement derived from the gross state product*.

Genuine Progress Indicator. *It is the intent of the General Assembly that once established, the GPI will assist state government decision-making by providing an additional basis for budgetary decisions, including outcomes-based budgeting; measuring progress in the application of policy and programs; and as a tool to identify public policy priorities.*

The GPI measures the total ***net*** benefits of economic activity, better reflecting the genuine progress of a society. These calculations start with household consumption within GDP and then include:

1. **Additions** for benefits not included in GDP, for example the values of volunteer and household work, and non-market benefits from the services of forests (e.g. water purification) and wetlands (e.g. buffer storm events).
2. **Deductions** due to depletion of our environmental assets, harm to human health, costs of underemployment, and loss of leisure time that are the basis for a more accurate assessment of the quality of the economy (not simply quantity).

State GPI Efforts. The University of Vermont's own Gund Institute for Ecological Economics is an international leader in GPI research and was the first to estimate the GPI at a sub-national level.[2] This methodology has been adopted in many other states, including Maryland's GPI, which can serve as a guide for how Vermont collects and manages data and then links the GPI to outcomes-based budgeting, evaluating policies and programs, and identifying public policy priorities.[3] The Gund Institute has offered to create a Vermont data committee to inventory existing datasets, enhance and maintain the GPI data in cooperation with the secretary of administration. This will include the adjustments to GDP reflected in the standardized GPI, as well as broader quality of life measurements from surveys and secondary data sources on health, human rights, and equity.

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[1] Research on alternative macroeconomic measures dates back to the work of economists William Nordhaus and James Tobin in the early 1970s on a Measure of Economic Welfare (MEW), followed by the work of Herman Daly and Thomas Cobb in the 1980s on the Index of Sustainable Economic Welfare (ISEW) which culminated into the standardized GPI approach of today.

[2] Constanza, Erickson et al., "Estimates of the Genuine Progress Indicator (GPI) for Vermont, Chittenden County, and Burlington, from 1950 to 2000," *Ecological Economics* 51: 139-155, 2004.

[3] See more detail on the Maryland GPI, including methods for all 26 indicators, at: http://www.green.maryland.gov/mdgpi/.