A Richer Way of Measuring Wealth

New well-being index would complement traditional GDP

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CARDINAL, Ont.–Marj Kempffer hasn't looked at the sky the same in years. Not since the day nine years ago when the clouds poured heavy sheets of ice on this eastern Ontario village.

Three days it went on, the freezing rain clinging to everything it touched in the worst ice storm to hit North America in decades.

Roofs collapsed, roads became impassable and both electrical wires and the poles that held them aloft snapped. Across eastern Ontario and into Quebec, no one escaped. This village on the St. Lawrence River went eight days without power. Others went for several weeks.

The storm stretched from Montreal to Kingston and caused $1.6 billion in damage. To this day, there are houses that still have not been repaired.

Yet, the Ice Storm of 1998 is the biggest single event in Canadian history to boost the Gross Domestic Product, a simple totalling of all goods and services in the economy that is the most-used measure of the economy.

It's this irony – that rebuilding in the wake of devastation is good for the economy – that is in large part fuelling an ambitious attempt to produce an alternative to the GDP, one that balances economic growth against a much larger and more comprehensive set of numbers to tell us if we are truly better off. It's called the Canadian Index of Well-being and its goals are:

- To reflect a broad range of factors – such as the availability of health care, literacy rates, the quality of air and water, the costs of adequate housing and the value of unpaid work – that together determine the quality of life in Canada.
- To do it so it's comprehensive enough to satisfy the statisticians and policymakers but simple enough to be understood by the general public.
- Give policy makers a tool to show, in quantifiable terms, the positive impact of good social policy such as measures to alleviate poverty, and to demonstrate with hard numbers how a dollar spent now on education or health prevention can reap huge rewards years down the road.

"We really need a different kind of statistical indicator – not to replace the GDP, but to complement it," says Michael Wolfson, assistant chief statistician at Statistics Canada.

Neither Wolfson nor any of the other statisticians involved in the project diminish the complexity of the task.

In health care alone, the CIW's measure could include ER wait times, rates of cancer and other diseases, body mass index, smoking rates, life expectancy, infant mortality and low birth rates, even rates of depression and suicide.

Adding all these up, factoring in at least six other "domains" to produce an "integrated index," would be a monumental achievement. There is still considerable disagreement over methodology (see "War on Poverty") even though the first phase of the project is set for this fall.

That's about two years after the original hoped-for launch of the CIW, but organizers say they have preferred to get it right instead of early. The extra time has been used to refine calculations and to co-ordinate the effort with similar projects around the world through the Organization for Economic Co-operation and Development.

Measuring things that matter

The Canadian Index of Wellbeing is being developed as an alternative to the G.D.P. It will measure a range of factors that determine quality of life in Canada.

CANADIAN INDEX OF WELLBEING

INDICATORS

1. Living Standards
Secure, meaningful employment. Adequate income and low-income protection. Food security and affordable housing.

2. Time management
Balance between paid work, unpaid work and free time. Capacity to make choices about use of time and stress of overload.

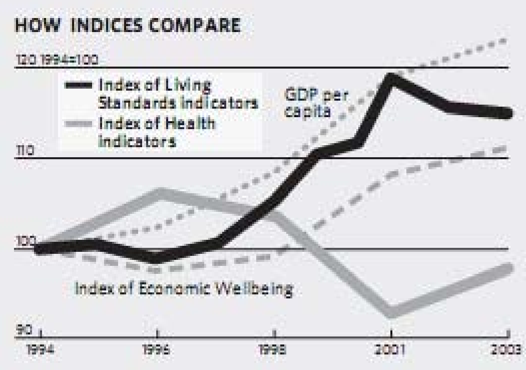
3. Healthy population
Self-rated health, funtional health, life expectancy, infant mortality, diseases, depression, suicide, body mass index, smoking, exercise.

4. Ecosystem health
Good air and water quality, healthy forests, greenhouse gas emiisions. waste diversion and sustainability.

5. Educated population
Literacy and numeracy. Indicators of educational achievement and quality.

6. Community vitality
Safe communities, cohesion, equity, diversity, culture, arts, recreation, and inclusion.

7. Civic engagement
Meaningful participation in community and political affairs.



SOURCE: Atkinson Foundation
TORONTO STAR GRAPHIC

Nonetheless, the CIW has gained a legion of fans, from former Saskatchewan premier Roy Romanow to Bay Street moguls to top government statisticians. At least seven Canadian universities including York and Dalhousie, several federal agencies, and a number of non-governmental groups such as the Atkinson Charitable Foundation are involved in the project.

To Romanow, the index is an extension of his groundbreaking study of the Canadian health care system almost five years ago, which found that the social determinants of health – poverty, hunger, homelessness, stress and the environment – need to be considered alongside hospital beds and waiting lists.

For the long-time NDP politician, the GDP's limitations as a measure of well-being are revealed in the negative inputs it includes.

Expenditures on cancer treatment, divorce, prisons and funerals are counted alongside factory production and restaurant meals as good for the economy, but few would say such things have improved their lives.

The ice storm is a case in point.

A Statistics Canada report months after the storm touted a "rebounding" Canadian economy, based on a surge in the GDP. That surge, it turned out, was thanks in large part to the cost of getting eastern Ontario and western Quebec back on its feet.

Cardinal Mayor Larry Dishaw shakes his head at the notion that the ice storm was good for anything, much less the economy. The storm devastated local businesses as consumer dollars were diverted to keeping buildings standing and getting the power back on.

"It was a good six weeks before business was back up," he says.

The wait was too long for many. To this day, Cardinal's main street is dotted by closed stores. Even the local bank eventually closed after 100 years, complaining that business had dropped too much to continue.

To backers of the plan to find an alternative to the GDP, such stories are all too typical, and reflect how traditional economic thinking ignores the realities that people live out every day.

"If you don't measure what counts, what counts is never measured," says Romanow.

The effort in Canada is matched by similar projects in countries around the world, particularly in Europe, Australia and New Zealand.

The statisticians involved in these projects, while they acknowledge the GDP's faults, say its attraction as a statistic stem from its simplicity. As a totalling of every dollar spent in the economy on goods and services, the GDP can reveal at a glance whether business as a whole is up or down.

What it can't tell us is how that money is distributed. A StatsCan report in December found that the gap between rich and poor has been widening in recent decades. Since 1984, the net worth of the top 20 per cent of the population has jumped 64 per cent, while that of those in the bottom 20 per cent has stalled.

As well, the average net income for the top 20 per cent jumped by more than $20,000 to $110,700 between 1995 and 2004, while it inched up only $400 to $12,200 for the bottom group.

Over the same nine-year period, however, the total GDP increased by about a third.

And the more the gap between rich and poor grows, the more inadequate the GDP becomes as a measure of wealth or well-being, says Wolfson.

"GDP tells us how big the pie is, but not how the pie is divided."

Any jump in the GDP that is heralded by economists and policy makers as good news increasingly falls flat with everyone else if they don't see their own lives getting better, says GDP expert Hans Messinger.

Messinger made a career of calculating the GDP at StatsCan, and is now spending his retirement working on the CIW as a better measure of growth.

"That's what a healthy economy is all about, to not only serve the few," he says. "The economy is there to serve everybody."

War on Poverty

Measuring well-being

Part of an ongoing series on the plight of Canada's needy and possible reforms

How will it work?

Statisticians, as a rule, like purity in numbers. Much of the attraction of the GDP as a measure of the economy is that it's a simple measure of one type of number – dollar sales.

But the sorts of things the Canadian Index of Wellbeing is meant to include are measured in years and percentages, as well as dollars.

"They're really apples and oranges," says Michael Wolfson, assistant chief statistician at Statscan and a top advisor to the CIW project.

Wolfson has been pushing for the CIW to be expressed as several numbers measuring different things, with the public and Bay Street left to figure out what they mean.

But former Saskatchewan premier Roy Romanow says the CIW can only really fly if it is easy to understand by Bay Streeters and Main Streeters alike.

"People should be able to understand at the water cooler what this means," he says.

Alex Michalos, social policy researcher at the University of Northern British Columbia and a key member of the CIW group, favours a single number. He cites the "domain" of living standards as an example.

The first step is to gather eight indicators of living standards – the ratio of top income earners versus bottom income earners, average family income, poverty rate, the economic security index, long-term unemployment, the employment rate, the CIBC index of employment quality and the RBC housing affordability index – for 10 years and plot them on a chart.

Then he sets the first year for each statistic – 1994 – at 100, a common statistical methodology. The numbers for subsequent years were then recalculated to reflect their relationship to the base year of 1994.

For instance, family income fell from 47,600 in 1994 to 46,800 in 1995, a drop of 1.7 per cent. That means that if 1994 equals 100 points, the 1995 number is just 98.3. By 2001, incomes had jumped 12 per cent from 1994, so the corresponding number for that year is 112.

He then did the same thing for each of the other indicators.

Then, once the numbers are all converted to a common denominator, they could then be averaged to come up with a single number and plotted on a chart alongside the GDP.

The result is a line on a chart that moves up much more slowly than the GDP over the same period, but which more accurately reflects the state of people's lives.

For instance, with the living standard statistics he used, a jump in material wealth as reflected in a 12 per cent increase in family income was tempered by a 10.5 per cent drop in economic security and a minor slip in the overall quality of employment over the same period.