

## WHERE IS ALBERTA HEADING?

### **Mark Anielski: *Measuring Genuine Progress in Alberta***

My presentation is based on our work in Alberta, looking at the last four years of economic progress and asking ourselves: Are we on a sustainable course? Where is Alberta heading?

I think that Alberta is going to weather this economic storm largely because the world will still demand oil, particularly in a state of war. That will bode well for Alberta, while the rest of the country may suffer some consequences from last Tuesday's calamity.

People who want to read more about this study can find our work and a wealth of information at [www.pembina.org](http://www.pembina.org). We've constructed the website to be a resource for people who want to be advocates for change and who want more information on the last 40 years of trends in Alberta.

I've spent the last few years relearning economics; understanding the roots of the language we use. The word "economics" comes from the Greek *oikonomia* which means "stewardship." Economics is all about household management, even though economics has become more aligned with monetary issues, as opposed to really understanding how well households and the environment are doing.

Wealth is the condition of well-being. If we bring those two together, we're going to talk about the stewardship of sustainable wellbeing, or the condition of our living and human capital.

We broadly define living capital as human, social, and natural capital. We wanted to get back to the roots of a more genuine conception of wellbeing. GDP (Gross Domestic Product) currently simply measures money changing hands. We hear it over and over again: more growth is assumed to be good. The rising tide of economic output is assumed to benefit everyone, raising all ships equally. We're going to show today that that isn't necessarily true.

More growth – more GDP – is always assumed to be better. Growth has long meant industrialization. Growth requires increasing consumption: the more we consume, the more GDP rises; the less we consume, the more the GDP stagnates. Growth requires increasing levels of debt. It's important to understand that economic growth requires increasing levels of debt. And debt is a trap, like a noose around your neck. It doesn't let go and it actually encourages us to over-consume and over-produce. It's an important point that few economists acknowledge.

The developer of the GDP account system in the United States said that the welfare of a nation can scarcely be inferred from a measure of national income as defined by the GDP and that those who called more growth – like politicians and economists – should ask: for what and for whom? What must be implemented is a economy that is stable and sustainable economy; maybe a zero growth economy, at least as measured by GDP.

Here are some highlights of the economic growth model in the United States: Imprisonment is growing at 6.2 per cent; every 150<sup>th</sup> American is behind bars, compared to 1 in 900 Canadians. Gambling is a \$50 billion industry in the U.S., and a \$13 billion industry in Alberta. Car crashes

add \$57 billion. The diet and weight loss industry adds another \$32 billion. Obesity costs \$50 billion year. Prozac sales come in at \$3 billion, and the security industry, \$40 billion.

All these transactions raise the U.S. GDP and it would appear that the economy is improving. This is an illusion. Common sense would argue that some of these expenditures are regrettable expenditures that do not contribute to wellbeing. But economists, when they add up the numbers, suggest that they do. Robert Kennedy said that growth of national product includes things like air pollution, advertising for cigarettes, and cleaning up the carnage on our highways. But he said it does not measure our courage, compassion, wisdom or devotion to our country. In short, he said, it measures everything except that which makes life worthwhile. This is a very powerful statement from a politician. We found that while the GDP per capita has been increasing, the U.S. wellbeing has been declining.

Our graphs show the massive disconnect between the money economy and our genuine wellbeing. The total level of U.S. debt is now \$27 trillion. This massive debt is fundamentally unpayable. It must be serviced by more and more production, so what we're seeing in the U.S. is a dangerous situation, not just because of impending war, but also economically. Few people are addressing this issue.

The ultimate goal of our lives is to achieve and sustain a high quality of life. Our point in proposing new economic systems is to get closer to measuring what it is that contributes to our wellbeing. These factors include a secure job, better health, more free time, a peaceful society with less crime, a clean environment, sustainable natural resources, stronger communities, greater wisdom and to be more caring. When we designed the genuine progress indicators, which we call the GPI system of sustainable well-being account, we felt it described the system we wanted to use to track all these factors. We felt that we needed a more comprehensive measurement system to monitor the total well-being of society. Not just economic output, but everything from our life expectancy to crime rates, to measures of levels of household debt and the quality of the environment. We want an accounting system that aligns more with the definition of economics in the Greek notion, one which accounts for our household management and stewardship of nature.

We began the Alberta study with an assessment of values. What do Albertans value? We could use the values to ask: which measures would be most important to Albertans in defining well-being? We found that there is no consistent value survey over the last 40 years. So we had to make our own choices about the indicators. But in the future we'd like to see a regular assessment of values of Canadians or Albertans in defining what indicators are important. The GPI accounts have 50 indicators of wellbeing including GDP, which makes it the 51<sup>st</sup> indicator. We take an accounting approach, as I found that in order to engage the business community I had to use their language. I have an accounting background so I figured it would be more saleable if I used the words "balance sheet" and "income statement." And we talk about human, social and natural capital as well as financial capital.

We've come up with a sustainability or well-being report card to Albertans. My goal was that it become sort of a coffee shop discussion amongst Albertans. We're not just going to produce an academic paper that will sit on the shelf or be discussed by academics. In fact academics were

the most critical of the study while average Albertans, at least those I've spoke to, were quite pleased with the results. I achieved what I wanted, which was an engaged, evidence-based discussion.

We look at five different types of capital -- human capital (everything from your health to how we use our time), social capital (things like crime, divorce and other social cohesion measures) and natural capital (state of our forests, oil and gas reserves, air quality, environmental quality), financial capital (looking at debts and other financial things) and social capital (infrastructure, public household infrastructure).

We started with quality of life value assessments, then brought in three spheres of societal and personal well-being, economic well-being and environmental well-being together. I think spiritual wellbeing is another key factor. The question is, how do you measure spiritual well-being? We actually never did measure it.

These are the way the accounts are set up. Now we want to get to the story of Alberta's progress in the last 40 years. Here is the list of the indicators we looked at. On the economic side we looked at GDP, how people are spending their money. We looked at taxes, savings rates, debt loads, income and equality. On the social accounts, we looked at poverty, how we're spending our time between paid work, free time, time spent with our kids and with our ailing parents or our elders, and volunteerism. We looked at divorce, crime rates, and health indicators, including premature mortality from diseases, obesity, suicide, substance abuse, and gambling.

On the environment side, we looked at something called the ecological footprint: how much land do we use to meet our lifestyle. We found Albertans have the fourth largest footprint in the world, after the United States, the United Arab Emirates and Singapore. That means we appropriate a lot of natural capital to meet our lifestyles. We looked at the sustainability of Alberta's forests, and how oil and gas reserves were lost in this province. And we looked at other things, like fish and wildlife and bio-diversity indicators. We tried to account for the cost of rising income inequality and to estimate the value of unpaid work. The time we spend at home with our kids doesn't get counted in our economic statistics. We look at the loss of human and social capital and the loss or depreciation of natural capital. We showed that the GDP in Alberta per capita has been rising steadily. It shows a falling off until the mid-1980s and then an increase. The increase was mostly due to the value of unpaid work rising. We add this to the account so the number of hours spent in unpaid work, including parenting and volunteerism, has increased.

Highlights include the fact that the value of unpaid work is estimated at \$38 to \$39 billion, about 35 per cent of Alberta's GDP that does not get considered in the Alberta GDP figures. The social and human capital costs – everything from the cost of crime, cost of gambling, cost of divorce, family breakdown and cost of underemployment— add up to about \$23 billion or 21 per cent of Alberta's GDP. The degradation of the environment and the value of depreciation as we draw down oil and gas, forests and agricultural land, is estimated at \$26 billion, or 24 per cent. These are remarkable numbers. When we add the social and human costs together, it's about 45 per cent of Alberta's GDP. That is actually a cost, not a benefit.

What we set out to do then is to say, if GDP is rising, let's compare these 51 indicators against GDP. What kind of story does it tell us? The story is very interesting and I'm only going to highlight some things. You can read all about it on the website as well. But if you take all 51 indicators that we looked at and give them equal rating, we show that the overall well-being index has actually declined since 1961 while the GDP growth index continues to rise. Some people would say, 'Well, maybe that's okay if the GPI index has flattened out and is holding.' But the point is that economic output continues to grow and well-being in general has certainly not kept pace with this growth. This gives you some really interesting portraits of well-being.

The biggest surprise in our study was that in spite of decreasing GDP, our overall economic well-being has actually stagnated. It has not kept up with economic growth, which is a really key finding. You can see savings rates are worse off, taxes are higher, and household debt is problematic. Even in terms of economic diversity, we found we're less diversified now than in 1971.

When we looked at the social and human wellbeing indicators – of which there are 21 – the environment indicator has been declining at a rate about 1.1 per cent per year, while the GDP has growing at about 2.2 per cent per year. When we ask the question 'More growth for whom and for what?', we found that real disposable income peaked in 1981 and has remained stagnant ever since. In a survey by the Council on Social Development, 23 per cent of Albertans said that they would not have enough savings to sustain themselves for more than one month. Albertans report being the most financially stressed in the country, despite the increase in the economic growth since 1981. That's the key story.

In terms of the gap between rich and poor, between the top 20 percent of Albertans compared to the lowest 20 percent, we have the highest growing gap in the country. This was the most fun thing I did: I took the net worth of the eight wealthiest Albertans; I estimated their hourly wage at \$35,300 dollars an hour compared to the minimum wage of \$5.90 an hour. We talk about a Jubilee and reducing income inequality. We've got a long ways to go to reduce a gap in which the income of the wealthiest Albertans is 5600 times that of a minimum-wage income.

But the important line for personal household debt line which is now in excess of disposable income. That's a remarkable story in itself. Savings rates decline and taxes are up to pay for national and provincial debt. Taxes have increased 500 percent since 1961. We're getting better services but a lot of our taxes are going to repay the national debt. We're living longer, but as the saying goes: another day older and deeper in debt. Household debt now is 109 percent of real disposable income and has risen from 57 percent in 1961.

Some good news comes from our labour market surveys. We're working fewer hours on average. But of course some of us are working more. Some are working 60 hour-plus weeks, while other people are underemployed. So the underemployment rate – people who want to work, but can't find full employment – has actually increased over the last four years. We're spending less time with our kids. One of the key findings in national surveys by Statistics Canada is that 70 percent of full-time workers feel time pressured. They are stressed on a daily basis and feel rushed all the time, which doesn't surprise many of us.

We see that poverty has increased about 37 percent since 1961. Alberta does have the third lowest poverty rate in the country, but we estimate that 20 percent of Albertans are using 74 provincial food banks. We also estimated a so-called “living wage” and found that roughly 17 percent of Alberta households are living at or below a living wage (estimated at about \$24,000 per family of four). Suicide rates have not increased, but the rate of suicide amongst young men is the greatest cause of premature mortality amongst that age and sex group. Estimates of the cost of crime are about \$1.8 billion or 1.7 percent of GDP.

We’re getting smarter. This graph shows that our level of post secondary education has increased, but we’re making less per hour; the return on our increased intellectual capital is stagnating. Auto crashes have lessened, but still contribute about \$3 billion to Alberta economy. Democracy measured by voter participation has also shown a slow, progressive decline for all elections. On the environment side, one of the more powerful indicators is what we call the ecological footprint, the amount of land we consume or need to meet our basic needs, whether it’s housing, food or transportation. We have the fourth largest footprint on the earth.

Just to give you a sense of scale across the globe, 54 percent of the earth’s population lives on 1.4 hectares. Albertans on average consume 10.7 hectares of land to meet their needs. We have a very high energy footprint because of our use of oil and gas. Then we estimated the footprint by income groups and we found that the top 20 percent of Albertans have a footprint about 15.8 hectares compared to the average of 10.7, and the lowest 20 percent with a footprint of about 6.5.

The other key story is that we are progressively drawing down our oil reserves and natural gas. There’s going to be lot’s of oil sands development in northern Alberta; there’s probably 300 or more years of oil sands supply, more than Saudi Arabia has. But we estimate if we don’t find any more gas, we will be out of gas in about 10 years. That’s an important thing to watch over the next few years. In 1949 about half the province was forested. Our forests, in our estimation, are getting burned or harvested at rates faster than they’re growing and replenishing themselves. And we’ve fragmented the forests so severely that we estimate 90 percent of Alberta’s forests are fragmented. That is, they have some type of roads or linear disturbance on them. We looked at agriculture and found that while we getting more per acre, we’re using more pesticides and fertilizer on the land.

These indicators help us to determine where we’re going from here. What kind of society do we want? There’s some good news, and some bad news here. This work helps to guide public policy and it helps to guide this discourse amongst groups like yourselves and in civil society.

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