Funding the Future

GDP

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With [this morning's stagnant GDP data now out](#) it seems worth sharing another entry from the forthcoming glossary, or guide to keywords in political economy, that I am writing.

This is the proposed entry for GDP. The questions are:

* *Is it useful?*

* *Could it be improved?*

* *How?*

When published it will have links to gross national product and GDP per capita, both of which have already been written as well. 4,000 words were added to the draft yesterday.

Gross Domestic Product (GDP) is a measure of the economic output of a country. It is the total value of all goods and services produced in a country in a period, irrespective of who produced them.

The method for computing the GDP involves statistical inference: it is not an accounting process. The GDP is usually expressed in the national cur-rency. GDP is most commonly calculated on an expenditure basis, as follows:

GDP = consumption + investment + govern-ment spending + (exports − imports).

This is commonly written as:

GDP (or Y) = C + G + I + (X-M)

GDP can also be calculated on an income and output basis. National statistical

authorities reconciled the three bases before publishing their estimates of GDP.

Gross domestic product (GDP) is considered by many to be a flawed definition of the income of a country. This is because it only measures that income which results in monetary transactions. In very many countries significant amounts of labour are expended on matters which never result in monetary payment, e.g. childcare, care of the elderly, unpaid work in growing and cooking food, on care of the household, and so on. None of these activities (many of which are often undertaken by women) are reflected in GDP resulting in both its understatement and the contribution of women to it being understated.

In addition, GDP also records the value of transactions even though they might add nothing to the net sum of human well-being. For example, the GDP of Alaska rose considerably after a major environmental accident on its shores that resulted in significant oil pollution but this did not improve the well-being of people in that state.

GDP as a measure also fails to take into consideration the distribution of income within a jurisdiction and is, as a result, a poor measure of individual well-being, to which it will rarely approximate.

GDP also fails to measure the cost of externalities arising in the course of much economic activity meaning that, for example, the cost of environmental damage resulting from routine economic production is not taken into account in its calculation.

Measures of GDP should, therefore, be treated with care. As the late Senator Robert Kennedy said of GDP before his assassination in 1968 "[GDP] measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile." There was much truth in his claim.