If GDP is a broken measure, why do politicians still wo...

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GDP dominates political debate, but it tells us almost nothing about real prosperity, well-being, or care.

Created as a technical statistic of massive use in wartime, GDP was never meant to measure success and yet it now drives policy, justifies inequality, and is used as an excuse for austerity.

In this video, I explain why GDP is conceptually flawed, how it rewards harm and ignores distribution, and why we urgently need economic measures that value care, prevention, and human flourishing instead of economic churn of no value at all.

https://www.youtube.com/watch?v=CltToHhkhfQ?si=OmOB81Cx7urLEGR0

This is the audio version:

https://www.podbean.com/player-v2/?i=yqa9g-1a35b0a-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

GDP is broken. As a measure, it is useless. We were warned many times and many decades ago that this was the case, but GDP still dominates our economic and political narrative. It is what every politician wants to grow, and that is defined as success in political terms, but the measure itself is fundamentally flawed, and that is what this video is all about.

Let's be clear. GDP stands for gross domestic product. It is a measure of supposed national income. It was created in the 1930s by a chap called Simon Kuznets, and Kuznets warned right back then that it was not a measure of welfare.

It came into its own in the Second World War when it was used as a tool for national planning and for the redirection of resources for the purposes of the war effort, but GDP was always a technical statistic. It was never meant to be a measure of success.

So, how is GDP calculated? It's important to know that if we're going to suggest that improvements are needed.

There are three incompatible approaches to estimating GDP.

One is called the output method, which, unsurprisingly, measures what is produced in an economy during a period.

Another is called the income method, which again, unsurprisingly, measures the income in an economy during a period.

And the last is called the expenditure method. In reality, these all produce different answers, which are forced into one headline number.

And let me be clear, the number of estimates involved in the estimation of these measures is enormous. I'll give you just one example. All measures of GDP include an estimate of the rent paid by a homeowner for the right to live in their own home. Why? Because in Germany, lots of people live in rented accommodation, and therefore, GDP there will be recorded as being higher than it is in the UK if we didn't include this measure of supposed rent paid by homeowners. But does any homeowner pay a rent to live in their own home? No, of course they don't. But 10% of UK GDP, that's a figure of around £300 billion a year, is made up of this supposed and absolutely non-existent form of income; rent paid for the right to live in your own home. That's how ludicrous the GDP calculation is.

The expenditure method does dominate, by the way, and that is the political version of GDP that matters, and so that's the one I'm going to concentrate on.

Consumer spending is the first component element of expenditure in this method. In other words, what do we spend buying the stuff that keeps us going each month? That is what is recorded as a core element of GDP.

Then there is the expenditure on business investment added onto this.

And on top of that, government spending, but that does not include transfer payments.

What are transfer payments? Things like pension payments. Things like the payment of benefits, because they then get reflected in consumer spending, and so they're not double-counted by including them twice, once as government spending, and then again when the person who receives them spends again. So, there is an attempt to prevent double-counting there.

And finally, the fourth element within the expenditure method of GDP calculation is to estimate net exports, which in the UK's case is always actually a negative because we have, for a very long time been a net importer of both overall goods and services, and therefore that reduces GDP.

The trouble is that if we take those four items, consumer spending, investment, government spending, and net exports or imports, there is a critical flaw because this simply measures spending flows and not the income or benefit from whatever has been spent upon, and that is fundamental and why GDP is absolute nonsense.

For example, the figure for investment ignores the time distortion that is obviously inherent in investment spending. If you spend money on an investment item, call it your car, call it the purchase of a new factory, call it whatever you will, you don't expect to get all the benefit today. Very clearly, the expenditure is incurred with the intention of realising the gain over a number of years. If I buy a new car, I want it to last for 10 years. I know not everybody does, but the point is that's my expectation. And if I was to buy business equipment again, I want it to last for several years, and that, however, is included in GDP as an item of expenditure at the time it's incurred and that, of course, does not therefore provide a true reflection of what the income of the country is in the period in question, because we have immediately distorted the figures and that has a consequence.

GDP is, in this case, nothing like income as accountants or as most people understand it, and that matters because GDP calculation is very rarely taught to anyone. You are in a tiny minority by even looking at this video. On the other hand, accounting income is taught to vast numbers of people. Everyone who's self-employed has some notion of what accounting income is, and, of course, there are millions, maybe not millions, but lots of people in accounting who understand that notion, and most MPs will. So, they think that what they're looking at when they look at GDP is a proper measure of income, and they're not. They're looking at a totally distorted measure that has nothing to do with the accounting measure with which they're familiar. That is also why GDP is rubbish.

And there is a whole failure in this logic in macroeconomics with regard to GDP measurement. There is actually what I would call a category error with regard to GDP calculation because there isn't what I would call a capital maintenance concept inside GDP, and that's for one very simple and straightforward reason. If you look at any larger business, you will find it has a balance sheet, a figure of how much is invested and what it is invested in by the business in question. There is no national balance sheet used in the calculation of GDP. There are, therefore, no checks and balances. There is nothing that ensures that the figures are complete in the way that the balance sheet proves, because it has to balance. You can make numbers up as a consequence. That figure for rent paid, for example, is utterly made up; there is no matching entry. So, that's why GDP is misleading.

If we were to have a figure that reflected the benefits of investment and the benefits of past investment and adjusted for both of those, and also had a sensible calculation of what is investment and what is not, so that training, for example, might be treated as an investment cost, because it is, because the benefits accrue over time, then we could end up with something so much better with regard to GDP, but we don't. We end up with this utterly distorted, completely meaningless cash flow figure, which doesn't tell us anything of any consequence, but which politicians are, nonetheless, using to guide their decision-making. It is quite absurd because GDP is not equal to our income.

This failure was understood a long time ago. Everything about GDP was understood a long time ago. The late Robert Kennedy, a man whose death I recall in 1968, because he was murdered when he was standing to be president of the USA, following, he hoped, in the footsteps of his late brother, John F. Kennedy, who was, of course, also assassinated in 1963, gave a speech, which wasn't much noticed at the time, but which has been remembered in retrospect. And he talked about the worthlessness of GDP, which was radical for 1968. And the only trouble is we've never taken any notice ever since.

He said, " GDP measures everything in short, except that which makes life worthwhile." Let's think about that for a moment. GDP measures everything but that which makes life worthwhile. This is so true of accounting as a whole. Because you can put a number on it, accounting thinks something is of value, but it isn't always. And in fact, what Kennedy warned was that GDP counts everything regardless of value.

He said air pollution, and cigarette advertising, and ambulances to clear our highways of carnage were all included in GDP; and of course, he's right, although perhaps the value of cigarette advertising has gone down in the meantime, but you can substitute something else of equal negative worth.

The point he was making was very clear. GDP rises when society is damaged, and that is a staggering thing to think about. Our MPs, our politicians, our Prime Minister and Chancellor of the Exchequer are all promoting an idea that we must increase GDP without ever considering the value of the activity undertaken that gives rise to the increase, which they desire. It could be that air pollution is what they're measuring. It could be increased advertising for things that are harmful, which they're measuring. It could be the fact that we have a more dangerous society that they're measuring. But all of those things, because they contribute to GDP, become in their warped worldview something of value.

As Robert Kennedy said, GDP does not include many things of value. His example was, " The health of our children, the quality of their education, or the joy of their play." And this was not an oversight; it was a design failure. All of those things matter enormously, not just to parents, but to our future well-being, to our overall economic well-being as a consequence, and yet, GDP has no way of reflecting the value of those things at all, and yet we want to increase GDP, and we ignore all these things of value.

Kennedy's critique is just as true now as it was when he made it in 1968. Except we understand some of the costs of GDP even more.

Oil spills raise GDP.

Increasing divorce rates raises GDP.

Preventable illnesses raise GDP, and there are vast quantities of those in the UK right now created by the sale of ultra-processed foods, which increase GDP but quite literally poison us.

GDP does then reward failure, neglect, indifference , and even callousness, and it ignores some other things as well.

GDP ignores who gets the income. If one person owned all the increase in GDP, GDP would still grow, but there would be no increase in personal well-being for the vast majority of people in the country, because there couldn't be, because one person had got all the gain. And yet, apparently, our politicians will still attribute value to that growth for the benefit of one person alone.

You cannot make up a system more stupid than that. When politicians want to appeal to everyone, because that is the basis of democracy, and yet they're using a measure which does not suit the needs of everyone.

That's why I call GDP CRAP. CRAP stands in this case for 'A Completely Rubbish APproximation to the truth'. It misstates income. It ignores the consequences of time when it comes to investment. It rewards harm, and it erases inequality from view, and yet it still dominates our policy decision-making.

This makes no sense, so what could we do instead?

First of all, we could use one figure, which is very much more reliable than GDP itself, even if it is still based upon the same flawed measure, and that is GDP per capita. In other words, income per head, rather than a total figure for income for the country as a whole, because, of course, we live in a country where the number of people is changing all the time. And therefore, GDP per capita brings this down to a measure that matters to people rather than being a measure that matters to politicians alone. It would increase understanding. That's the point, and that is relevant. Data which isn't understood is meaningless.

Secondly, we could adjust for investment timing. We could build in a balance sheet concept into our national accounting, and as a result, we could talk about the value of making investments and how we were improving the national well-being as a result. We would not treat everything as a cost, which has been poured into a bottomless pit as a result, and that would massively increase the quality of the national economic narrative. As a consequence, we could just do something which I would call intelligent and national accounting. It really would not be hard.

And thirdly, we could incorporate measures of distribution within GDP. In other words, we could look at measures of inequality at the same time as reporting GDP to say, this increase has reduced inequality, or this increase has increased inequality. In other words, saying whether we've met a social goal from growth. Growth, per se, is not useful. Growth is only useful if it meets our social goals; in other words. And none of this is technically difficult.

What else could we do? We could actually look at the quality of activity within the economy. So, for example, not all healthcare is actually useful in the sense that if we could avoid having to incur healthcare costs, we would be much better off. We would rather be well than ill. Once we're ill, we'd rather be well again, but it would be much better if we never had to go through the process of being ill. So why aren't we putting a positive value on healthcare management and health maintenance, and putting a negative value on putting things right when they've gone wrong? That would value prevention. That would value quality. It would recognise care.

And at the same time, we could do something as well. We could recognise another key component of care, and of course, that is the value of unpaid work. If we could make up a number of £300 or so billion for unpaid rent, we most certainly can make up a number for the value of unpaid work, largely undertaken by women within our society, and look at the consequences of that and how dependent we are on it. In other words, what we need to do is measure true prosperity and not just churn. It's a really important point, and yet one that isn't being addressed.

All of this matters because growth is being used as an excuse to justify inequality. So long as we're growing, it is said, put up with inequality because care will follow. It never has, and that's an argument that we're going to deal with in another video because it's also untrue. But growth is used to justify this abuse.

And austerity is also justified by these bad metrics. When GDP growth is low, it is said we can't afford to spend as a government, therefore we must have austerity instead, which is completely ludicrous. And that's particularly the case when care is treated as a cost and not as a benefit. GDP does, then, protect power and not people.

What are the conclusions?

The first one is very obvious. GDP is conceptually broken.

Secondly, we have to say this has been known for decades.

Thirdly, this then drives damaging policy choices, and that is an unavoidable conclusion to reach.

And fourth, we must measure well-being and care instead. We must look at the options.

As to the actions required, let's stop worshipping GDP and let's start governing for human flourishing, and as a consequence, develop metrics that matter: matter to you, matter to me, matter to well-being, matter to the country, matter to the long term, matter to those who are even going to come. Those things are essential. We have to do those because then we'll have an economics of care that delivers for well-being.

What do you think? There's a poll down below.

Poll

[poll id="310"]