EDITOR'S PICK | 9,428 views | Aug 3, 2019, 10:00pm

GDP Is Broken - Meet The Leaders Trying To Fix It

David Dawkins Forbes Staff
Billionaires
I cover the work and wealth of Europe's richest.

A U.K. trader watches U.S. President Donald Trump. © 2016 BLOOMBERG FINANCE LP

When the U.S. President tells his citizens they're lucky enough to be living through the "greatest economy in the history of America" everything he needs to make that claim comes from a single, simple source.

Gross Domestic Product (GDP)–the production value of goods and services–is a wonderful way to see the landscape of a country's economic growth, without cloaking the very information we so desperately need to know in technical detail or obscure, floating data.

But on Friday it was announced that the U.S. economy growth slowed to 2.1% in the second quarter, funnily enough the President is yet to tweet. It's telling of the relationship between political power and GDP. Of our politicians, it's often said—"they work for us." But GDP works for them, and in its present state, them alone.

It's a sign of the times. Like so much of the Bretton Woods era global economic consensus, GDP is a broken measure that fails to answer so many of the urgent questions the ordinary American are unable even to ask: Is that 2.1% creating jobs; is that 2.1% bridging or extending the gap between the highest and lowest earners; is that 2.1% using up the last of our precious resources. In short—how will that 2.1% change my life? And it is in answering these questions that GDP fails, so very hard.

But 2019 could be the year this all changes. A number of economists are taking on the challenge of making GDP richer, more detailed and more intimate—calling for the adoption of a better solution—something more than just a propaganda tool for those in power.

For the first time, GDP is being disrupted itself, by a new generation of economists proudly capitalist, but aware that a new approach is needed to better capture and understand a more unequal and complex world.

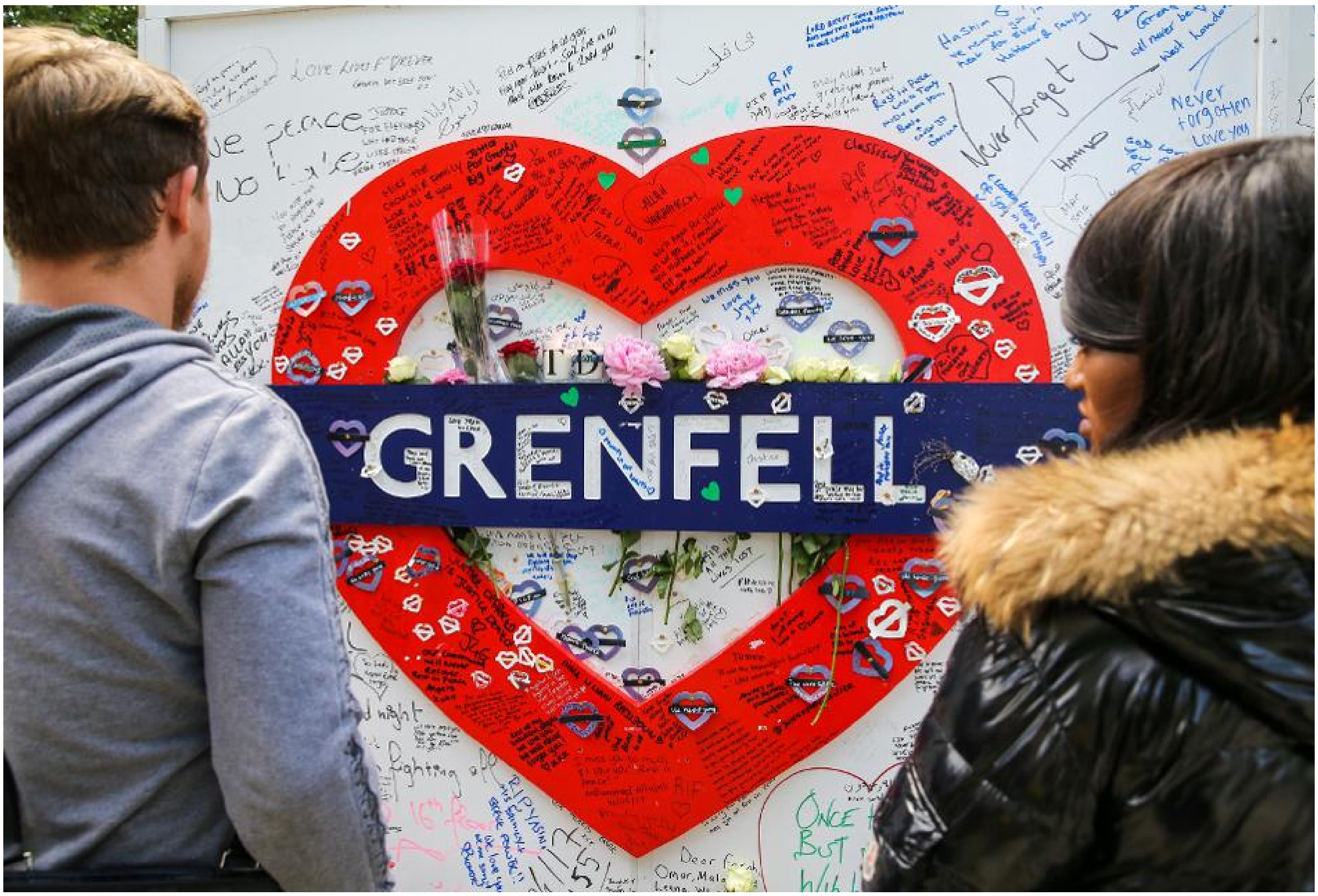
But improving on GDP is no easy task. It is, for many, the cockroach of national statistics–GDP isn't going anywhere.

The Broad Brush

Dissatisfaction with GDP is hardly new. Author David Pilling has written an entire book on what he calls "our nonsensical obsession with economic growth", but even he admits that "the genius of GDP" is how it claims to aggregate everything–"all human activity"–into one single number. It's a tough thing to replace.

For Diane Coyle, Professor of Public Policy at Churchill College, GDP's long "reign" stems from its global applicability, "it's a technical standard, like two pin plugs or electricity voltage," she tells *Forbes*. "There are great benefits in everybody using the same definitions, and even when–as now–it's widely recognised that they are inadequate, it's hard to change from an old standard to a new one. The task is like getting everyone to switch from driving on the right to the left of the road."

But Coyle admits that the hastening of this shift is of global importance. "The democratic conversation is breaking down", and GDP is a key driver of this.



72 people died in the Grenfell fire LIGHTROCKET VIA GETTY IMAGES

The Grenfell Effect

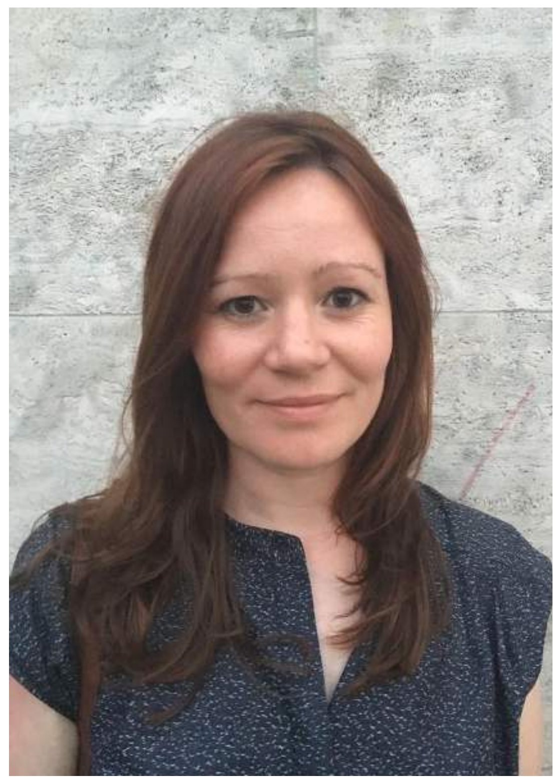
This is a global phenomenon. Take for example, Grenfell. Londoners will never forget the sight of the high-rise Grenfell Tower ablaze in the skyline of Kensington, one of the most affluent boroughs of one of the world's richest cities. Seventy-two people died in what wa the deadliest residential fire in London since World War II. A moment of national shame and a demoralising disaster that would surely act as a downward pressure on economic strength?

But as London rebuilds, the horrid irony of Grenfell (as with all natural and man-made disasters), is that the money spent on fixing the damage will eventually turn up in the plus column of the UK's GDP figure.

And GDP has now drawn our institutions into its orbit. "Yes," a spokesman for the UK's Office for National Statistics confirmed with the callous clarity of a professional British number cruncher, "GDP covers all economic activity, so this [Grenfell] would fall within its scope".

How do we feel about this? An unfortunate clumsiness, or a broken measure?

A Better Life?



Carrie Exton Head of Section Measuring Well-Being and Progress. @CARRIEEXTON

Economist Simon Kuznets is often described as the father of GDP - the man who figured out the deep science behind economic "size". He won the Nobel Prize in Economic Sciences for beating John Maynard Keynes to an accepted interpretation of how we measure, compare and understand economic growth.

But even the father of GDP didn't like what it became. Coyle claims that at its birth, Kuznets was arguing in favor of a "sort of holistic sense of economic welfare" and not just a single, limited, corruptible figure.

It's fitting that in 2019 Kuznets original ideas are returning through big data, delivered through a tech interface and inspired by a disruptive mindset.

The Better Life Initiative was launched by the OECD in 2011, built on the idea that macroeconomic statistics, like GDP can't and won't tell ordinary working people about the living and working conditions we see and feel.

Carrie Exton leads the OECD's *Monitoring Well-Being and Progress Section*, and her job is to create what she describes as a "dashboard of indicators" - people themselves can pla with online.

It's a pedant's dream: if you care about jobs and income–Luxemburg, U.S., Switzerland, Iceland and the U.K rise to the top. Throw a few more variables into play–environment, community, housing–and the U.S. and U.K. plunge, as the small, affluent European countries rise.

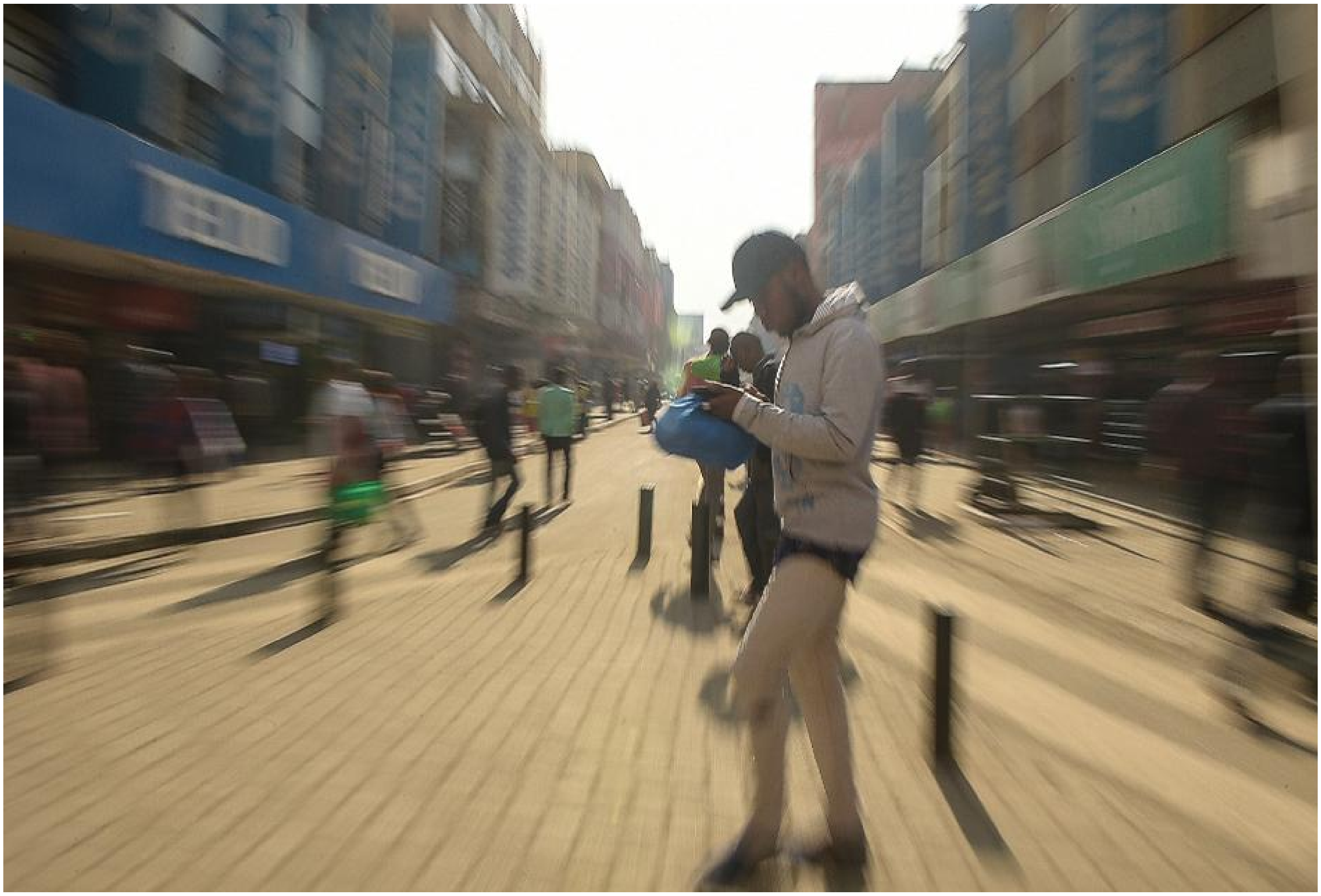
Exton sums it up: "If you want to represent the sum of human progress one number just isn't going to cut it", she says. The reality that we need a variety of different indicators that better reflect our living conditions today.

Rich And Poor

Exton makes it clear that the end is nigh for GDP as a crude "proxy" for "human progress". In fact, the OECD point to the fact that GDP obscures a lot of the vital data, ordinary people are keen to see.

For example take income growth–the basic idea that as we work harder and longer, we earn more. The OECD found that over the last decade, the most wealthy top 10% have seen that rise four times more than for the bottom 10%. In short, for every pound in a poor man's pocket, there's four for those at the top.

But it's not just money. In 2019 there's a whole system of concerns orbiting our lives that we need to know about. The OECD acknowledge that GDP ignores the many things people consider to be priceless like health, trust and social connectivity, leisure time. "We can count the money people spend on these things", Exton adds, "but we can't capture th value of being in good health within the GDP framework."



A man using his mobile phone walks along a street in down town Nairobi on July 24, 2019. SIMON MAINA/AFP/GETTY IMAGES

Happy And Sad

But does GDP have any correlation whatsoever to how people feel? If you look at the U.S. and the U.K. two completely contrasting economic stories have played out over the last year, but we seem to end up in a very similar place.

In the U.S., President Trump boasted of, and benefited from, the strength and ability of the U.S economy to just power on through—10 years (120 months) of constant growth suggests he might be right. But in reality the growth that's followed the 2008 Crisis has been slow and low, and there's a real fear that the U.S. middle classes are neither driving or benefitting from that growth.

While in the U.K–as three gloomy years of Brexit drizzle nears "no-deal" downpour– GD is expected to grow at 1% (at best).

However, despite the divergence in sentiment from those in power, not to mention the wildly contrasting GDP figures, when it comes to "happiness" the U.S. and the U.K. sit alongside one another in18th and 19th respectively–quite considerably below the tiny Republic of Costa Rica not to mention Finland, Norway, Denmark and Iceland at the top of the UN's World Happiness Report.

There's a clear reason for this. Another GDP disruptor, Michael Moser from the *U.S. Gross National Happiness Genuine Progress Indicator* acknowledges a lot of what is wrong with the U.S. runs alongside the rise and rise of its economic fundamentals. In short, America simply can't GDP the pain away.

Moser adds that "if we use economic indicators alone as proxies for population wellbeing then policies will remain focused on economies. When we measure human happiness anc wellbeing, we are radically changing the paradigm, and focusing attention–and policies t follow, beyond pure economic activity."

The study took a rather old-school but fundamentally American approach. "We actually called folks up and asked them", the report confirms a lot of what we already knew: life is tough for many in the U.S. And GDP aside, the report acknowledges an experience whereby about half of all Americans live in low-income situations and/or in poverty; the US infant mortality rate places us 48th in the world (of 193 countries) while according to 2018 report from the Bureau of Justice Statistics (BJS), nearly 2.2 million adults were hel in America's prisons and jails at the end of 2016.

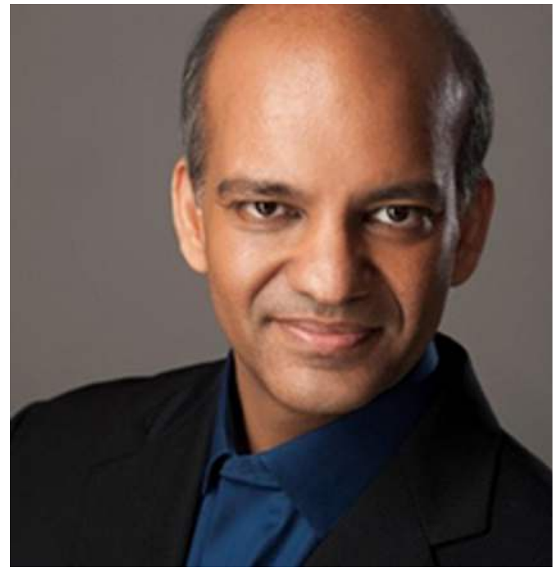
"I believe that there is a place for measuring happiness and wellbeing alongside more traditional measures", he adds, "I think an improved economic measure has its place, but we must be more holistic in our accounting of human conditions ... objective economic measures and personal wellbeing measures should be used in tandem to develop and track a more complete accounting of population conditions."

Bright Lights, Big Cities

Perhaps the most exciting GDP disruptor is *Bright Lights, Big Cities* an attempt to measure economic growth in Africa from outer space.

The study, funded by The World Bank, uses satellite imagery from 1992 to 2012 to measure light emissions from counties and districts in 47 Sub-Saharan African countries.

An idea with huge disruptive potential, it actually sounds more complicated than it really is.



Apurva Sanghi Lead Economist, The World Ban Group @APURVA SANGHI

"We worked on the assumption that as almost all consumption and investment activities in the evening or night require lighting," Apurva Sanghi the World Bank's disruptor behind *Bright Lights, Big Cities* tells *Forbes*, "The intensity of night lights–or its growth over time–can be used as a proxy for the intensity of economic activity and growth."

It's an interesting idea, can "light emissions" really tell us more about our financial wellbeing and progress than GDP?

Sanghi and his team tested the idea on "dimly-lit" sub-Saharan Africa. "We did some test and surprisingly found that night lights do a pretty good job in tracking official GDP numbers. Whether it is a massive contraction of economic activity as in the early 2000s in Zimbabwe or a slight temporary downturn in the late 1990s in Eritrea during the border conflict, the evolution of night lights as observed from space closely follows official GDP.'

But perhaps the most disruptive and exciting aspect of *Bright Lights, Big Cities* is its ability to put an understanding of economic activity and growth back in the hands of the people.

Take for example one of the world's fastest growing economies–India. Before the 2019 elections it became apparent to voters in the largest democracy that India's place at the top of the GDP growth league table for much of Prime Minister Narendra Modi's five-yea tenure, had not had any real impact on the lives of ordinary Indians. Seeking reelection, i was clear to see Modi and his BJP party slowly stepped away from the GDP platform they'd occupied for so long.

With joblessness and under-employment deepening in India, former Reserve Bank of India Governor Raghuram Rajan dared to state what the entire country had been thinking when he told CNBC TV, “how can we be growing at 7 percent and not have jobs. Well, one possibility is that we are not growing at 7 percent”.

Although *Bright Lights, Big Cities* acknowledges the difficulty of tracking agricultural communities like those found in certain parts of India, Sanghi and the World Bank warn of the massive social repercussions of GDP “mis-measurement’, both accidental (in the form of failing or ill equipped national statistics agencies) and intentional, when, he adds “countries deliberately start twisting or falsifying GDP stats for political gain”.

This leaves us all with the puzzle of figuring out what numbers we can and cannot trust. In a time of fabrication and deceit, using an already broken-down system of measurement, how can we ever be certain that the statistics on our country’s financial performance are accurate?

Good Data

In short, we need the tools to test the economics of what affects us most, and not merely to trust what we’re told by those in power.

For example, *Bright Lights, Big Cities* decided to test the “received wisdom” that Nairobi represents over 60% of GDP in Kenya. Sanghi tells *Forbes*, “Our work showed that Kenya’s capital city represented only 13% of national GDP— a far cry from 60%!”

This is big. It shows how the disruption of bad stats has huge social and economic potential. A richer understanding of Kenya’s GDP would change policy-making and potentially better direct development and infrastructure spending towards areas and industries more likely to benefit.

Imagine what a generation of rural entrepreneurs could do with broadband access, or better roads? They’re not going to get it if lawmakers are not challenged on the bad data that underpins their policy and spending decisions.

Unfortunately, for the moment, GDP is not going anywhere. It’s deeply entrenched, deeply institutional metric that represents the status quo of political and economic thought and understanding. It is part of the fabric for both emerging economies like Indi and Kenya, and slower, sophisticated economies like U.K. and U.S. It is vital data–and more often than not– a tool used against us, never by us.

Right now it's the best we've got, an easier thing to bash than to replace.

But, in the future, with a better tool box we might well soon be better able to test the claims made by our politicians and take control of the narrative. And we're inching closer. Despite different disruptors–some tracking light, or reserves of raw materials, while others track happiness–Carrie Exton from the OECD says that a "consensus" and "the key ingredients" for a better GDP is beginning to emerge around the world.

And this could fundamentally change the world we live in. After all, if we can rip away the bad economics from politics then we might even get very different breed of political leader.

Additional research and reporting by Nadia Hasheminejad.

Follow me on Twitter. Send me a secure tip.

David Dawkins

I am a wealth reporter at Forbes, based in London covering the business of billionaires, philanthropy, investing, tax, technology and lifestyle. I studied at Goldsmiths… **Read More**