GDP per capita: from measurement tool to ideological construct

blogs.lse.ac.uk/businessreview/2016/05/10/gdp-is-an-ideological-tool-that-leaves-out-more-than-what-it-measures/

5/10/2016

National accounting techniques, developed in the US, Europe and Australia in the inter-war period, and considerably sophisticated since, have become the cornerstone of much research and accepted wisdom both in contemporary global development debates and in economic history. In particular, GDP per capita has become the tool/yardstick of choice in most work that considers comparative levels of economic growth across the world and that attempts to measure the relative economic success or failure of regions and nations. It has also come to dominate research geared to calibrating the changing pace (the timing of acceleration and deceleration) of growth in different countries over many centuries, and hence has come to be instrumental in attempts to identify the casual factors propelling economies forward, or holding them back.

Although the difficulties of estimating GDP are much debated before figures are accepted or employed, and although it is widely acknowledged that historical estimates across time and space leave much to be desired in terms both of accuracy and comparability, the notion of GDP as an ideological construct, rather than as an objective measurement tool, is rarely countenanced.

The adjective 'ideological' refers to an orientation that characterizes the thinking of a group or nation. Ideological constructs and ideological reasoning, if widely accepted and practised by majority or dominant groups in society (and academia) are rarely perceived as such but enter the mindset and the vocabulary of popular understanding and discourse, becoming a form of little-questioned common sense. Since the inter war years and especially since the 1980s or so, GDP per capita has developed from being a useful measurement device for restricted purposes, time periods and circumstances to becoming a hegemonic and normatively forceful tool applied to address too many questions across diverse time periods and cultures. As such, I would argue that it has contributed to a biased view of the origins and trajectory of global economic and social betterment and hence of the conditions that might promote globally sustainable development in the future.

National accounting techniques were developed in the mid twentieth century to aid macro-economic management in societies that had (generally) industrialised early along a high-capital and energy-intensive route and without suffering the penalties of colonisation and informal empire.

Measurement tools such as GDP per capita best suit such circumstances and reflect the relative success of pursuing that route rather than other paths that might, through necessity or choice, prove more appropriate for particular parts of the globe and for sustainability over millennia rather than a century or two.

GDP best captures the characteristics of economies that have efficient recording mechanisms for taxation and other purposes; that have centralised (often synonymous with capital and energy intensive) rather than highly dispersed (and manual) forms of (lower environmental-impact) economic activity; that have a relatively small subsistence or informal sector; and that have insignificant levels of FDI.

What GDP per capita necessarily does not measure/capture
• unrecorded (untaxed) economic activity (self-employments, scattered and informal work, subsistence and reproductive activity etc.)
• (thus) most of the economic contribution of women and children
• wealth, capital or physical assets
• raw material or other resources
• technological or human capabilities
• stability of growth or decline outside the time series provided
• sustainability of growth (including but not only environmental/resource sustainability)
• distribution of incomes or wealth, i.e., economic inequality
• living standards or human welfare
• rate of population growth and its impact upon the denominator
• political or social freedom
• portion of outputs provided by foreign investment (profits distributed outside the entity)
• portion of outputs produced by non-native labour (which is outside the GDP per capita denominator)
• time discounting (eg. placing a proper –if any- value on things that will need to be paid for in future such as imported rather than depleted domestic fuel supplies or raw materials, nuclear decommissioning, climate change)
• structural change
• technological innovations
• proximate or any other cause of growth
• economic development
• Does it even measure economic growth?

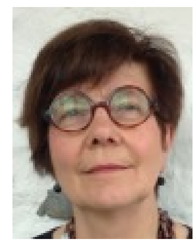
GDP per capita was overtly used as an ideological tool during the Cold War when Abram Bergson and the CIA produced (much debated) estimates of GDP per capita for the Soviet Union and the East European satellite states to compare with those of the US, despite data inaccuracies and the difficulties of applying Western-derived national accounting conventions to command economies in which consumer prices did not reflect utilities. And the use of contemporary global league tables that, for example, place Qatar second from the top after Luxemburg and indicate that the Irish Tiger has recovered from 2008 to eighth place in the world (20 per cent GDP per capita above the UK, as well as above Germany, France, Japan) can only be explained in ideological terms.

The continued unquestioned use by economists and historians of global comparisons of GDP per capita, past and present, closes down debate about alternative measures, restricts our understanding of the timing and causes of change and, above all, limits our vision of what 'economic development' is and how it might be directed.

♣♣♣

Notes:

- *The post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
- *Featured image credit: Pixabay Public Domain*



Pat Hudson is Emeritus Professor of Economic History at Cardiff University. Her interests include industrialisation, textile history and historiography. She is joint editor of the recently published Routledge Handbook of Global Economic History and is currently editing a collection of essays on the "Piketty opportunity". Her views on GDP are further explored in the podcast of her 2014 Tawney Lecture available here.

- Copyright © 2015 London School of Economics