

Economic performance

How well are we doing?

The country's economic performance is widely taken to be measured by Gross Domestic Product (GDP). But what does GDP actually measure? And why is GDP growth important?

GDP

GDP has been used since 1944 to measure the economic strength of a country.

There are three ways of calculating GDP: (a) total production, (b) total income, and (c) total expenditure. All three are claimed to produce the same result *in theory*, but never do so in practice, allegedly because of the impossibility of collecting complete and consistent data.

Expenditure-based GDP is calculated as household spending + investment + government spending + nett exports.

In UK, GDP is apparently calculated on a production basis, i.e. as the total *market* value of *all* goods and services *produced* in the country, plus taxes minus subsidies, according to something I read.

It does not include unpaid work, such as minding the house, bringing up the children, and caring for needy relatives.

It is rumoured to include an allowance for sales of narcotics and sex services. This seems unlikely; but it may possibly be needed to match GDP estimates based on total income and total expenditure.

It includes government services at cost, with all the nonsense that entails.

Growth is deemed to be important. GDP growth measures the rate of "development" of a newly industrialising country. But when a country is fully "developed" GDP growth seems merely to indicate the growing use of unnecessary goods and services, and growing consumption of the Earth's limited resources.

Recession is regarded as a very bad thing. Recession is defined as reduced GDP in two consecutive quarters.

Economic disaster looms! A chain of sandwich shops has gone bust. People are out of work. Available services are reduced. GDP will go down. Even worse, there are warnings that many pubs and restaurants are likely to go out of business.

But in what way will the country be actually worse off? The fabric of the country and the resources available to it will remain essentially unchanged. Perhaps there will be a very small decrease in the revenue from tourism, and hence perhaps a small decrease in the number of mobile phones the country can afford to import, but that is not in itself a disaster.

It's important to protect jobs, of course. The country needs people to be productively employed. So some people urge us to spurn the self-checkout at the supermarket, and thus

protect the jobs of the checkout operators. But in similar vein we could be asked to refuse to use unattended fuel pumps, failing which to refuse to use the option to pay at the pump, and certainly never to go to an unattended fuel station.

But in what way is the country actually worse off if people stop doing jobs which are no longer needed? The sordid answer is that getting the customer to do the work will not lead to a commensurate reduction in prices, and the extra profits thus generated will probably find their way to the Cayman Islands.

Economic triumph! A new supermarket has opened, creating 800 new jobs.

But in what way is the country actually better off? Are we about to spend more on food, and thus boost "the economy"?

There are a million things which need to be done. But we can't afford to pay anybody to do them because we are short of money. One of the reasons we are short of money is that there are a million people unemployed, depending on welfare payments to stay alive. There is clearly an insoluble problem.

Hitler and Stalin would solve the problem by killing the weak and forcing the rest to do the things which need to be done. We cannot do that in the UK. We can let many of the weak die of poverty and neglect, but we cannot actually kill them unless they come out in protest. And forced labour is absolutely unacceptable in our free, liberal society. So we clearly have an insoluble problem.

Or have we? Perhaps the insolubility of the problem is built into our the way we describe it! It is our economic model which makes the solution invisible.

The whole thing is based on the idea that to *earn* a living you have to be *employed* in a *job*.

If you are not employed and are seeking employment then you are classified as unemployed and can expect to receive meagre social security benefits to help keep you and your family alive. If you are not employed and are not seeking employment then you will need some other source of income, such as a working wife, dividends on the shares you own, rental on your portfolio of properties, or trading in covert products and services like drugs, sex, and cash-only gardening.

An organisation, commercial or other, will employ you in a job if they have the money to pay you and you can do something suited to their purpose. And they will pay you as little as they need, unless you are employed as senior management and thus able to influence rates of pay.

But because the assumption is that the pay for your job needs to be enough for you to live on, we introduce a minimum wage rate. But this is a minimum *hourly* rate, and there is no minimum number of work hours. Moreover, the minimum wage is set, without any hint of irony or other humour, at a level which is significantly lower than a defined "living wage".