GDP: Gross Domestic Problem?

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China is the world's second-biggest economy as measured by GDP—but the GDP debate is intensifying as Beijing vies to prioritise quality over quantity in the knowledge that the rush for growth can come at massive environmental cost

It can topple governments, confer international bragging rights and pretty much obsessed the government of China once the country began its long march back to economic prowess.

But is GDP (gross domestic product) outliving its usefulness as a metric of economic size, and is it stoking social and environmental crisis by encouraging growth at any cost?

Debate about whether it is time to adopt a more nuanced calculator has been growing in recent years, and featured anew during discussions at the World Economic Forum (WEF) in Davos this week.

"There's emerging agreement that the kind of statistics we've used in the past just aren't working any more," British economist Diane Coyle from the University of Manchester told AFP in Davos.

Coyle is one of several experts who have written books on the subject. Others have detailed proposals such as a "Human Development Index", and a new addition to the literature comes this week from Financial Times journalist David Pilling, entitled "The Growth Delusion".

In Davos, Coyle outlined new thinking that would supplement brute economic data with measurements covering human capital (skills and education), physical infrastructure and "intangible capital" such as computerised data and patents.

They would also cover environmental quality, and "social capital" looking at how united or divided a country is.

Ascribing a value to data is particularly pressing as companies and customers increasingly transact their lives "in the cloud". To take one example, a globally accessible and hugely useful resource like Wikipedia is worth precisely zero in traditional GDP accounting models.

Neither does GDP encompass the black market, omitting a huge source of activity and income in many developing countries, including in Africa and Latin America.

The politics of GDP

Notably, GDP cannot measure the distribution of wealth within a country. So while its total value can go up, gains are all too often skewed to top earners. Those lower down the ladder can fall further behind in relative terms.

That is exactly what has been playing out in the United States, powering a populist backlash that elected Donald Trump, and influencing the British people's decision to quit the European Union.

After the Brexit referendum campaign, pro-EU campaigner Anand Menon wrote that he was trying to explain at one event about the hit to GDP that he felt would come if Britons voted to leave the bloc.

He said that one woman in the audience in Newcastle, northern England, shouted back "that's your bloody GDP, not ours".

Developed in 1934 by economist Simon Kuznets to help the United States chart an escape from the Great Depression, GDP measures the total value of a country's goods and services over quarters and years.

Woe betide a government that heads into an election on the back of a recession—usually defined as two consecutive quarters of decline in its GDP.

But even where there is growth, disenchantment with how it is shared out can be seen vividly in Brexit-bound Britain, according to Inga Beale, chief executive of Lloyd's of London, the insurance market.

"We've got to find another mechanism to include much bigger parts of the population, and use different metrics to measure success of a country," she told CNBC television.

World's richest nation? Norway

GDP is widely seen as a blunt instrument to measure growth, and has attracted criticism from Nobel prize winners Joseph Stiglitz and Amartya Sen, and International Monetary Fund chief Christine Lagarde, among others.

But countries that do execute sustained rises in GDP can use the accreted wealth to transform their standing.

Exhibit A is China, which after decades of pell-mell growth is now the world's second-biggest economy as measured by GDP, awarding it the kind of international prestige and influence that it has not enjoyed for centuries.

But even in China the GDP debate is intensifying as President Xi Jinping vies to prioritise quality over quantity in the economy's expansion.

So what are the alternatives to GDP?

Dissident thinkers are calling for a holistic approach that calibrates not just economic inputs but human capital along with quality-of-life issues.

With the planet warming and some resources already exploited to near-exhaustion, including many fisheries, the WEF this week proposed a broader measure of growth called the Inclusive Development Index that accounts for such factors.

On that basis, Norway is the world's richest country and the rest of the top 10 comprises small European countries and Australia. Germany is in 12th position, the United States is 23rd and China 26th.

In any case, professor Coyle said, countries do not drastically have to overhaul their national accounting to take stock of environmental degradation caused by the rush for growth.

"You just need to breathe the air in Beijing to feel the cost," she said.