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WHOSE GDP IS IT ANYWAY?

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In a few weeks, a quarterly ritual will play out in India. The Government will release the first quarter's Gross Domestic Product (GDP) growth numbers with some chest-thumping about how India is among the fastest-growing economies in the world. Opposition parties will hold press conferences on the same day to counter such bombast with facts, rhetoric and nitpicking. But the real question is: what is the significance and impact of GDP growth for the common person? The answer: very little.

It is safe to say that the average person's primary and perhaps sole concern about the economy is the income they can earn. It is well documented that for several years, the single most important demand of people in India is jobs, specifically, a high-quality formal sector job that ensures dignity of work, good income and job security. It is then apparent that GDP growth matters to the average Indian only if it can generate good quality jobs and incomes for them.

Using data of 'employment in public and organised private sectors' published by the Reserve Bank of India (RBI), we can calculate that in the decade between 1980 and 1990, every one percentage point of GDP growth (nominal) generated roughly two lakh new jobs in the formal sector. That is, if India's GDP grew by 14% every year in the 1980s, it can be said that it created roughly 28 lakh new formal jobs.

In the subsequent decade from 1990 to 2000, every one percentage point of GDP growth yielded roughly one lakh new formal sector jobs, half of the previous decade. In the next decade between 2000 and 2010, one percentage point of GDP growth generated only 52,000 new jobs. The RBI stopped publishing this data from 2011-12, but one can safely infer using proxy data that in the 2010-2020 decade, the number of new jobs generated for every percentage of GDP growth fell even further.

In essence, one percentage of GDP growth today yields less than one-fourth the number of good quality jobs that it did in the 1980s. While the actual number of jobs created in each decade is only a rough estimate by the RBI, it is the alarming declining trend in job creation over decades that is more important to ponder. To put it differently, India's GDP growth today has to be four times its GDP growth in the 1980s to produce the same number of formal sector jobs.

It is amply clear that the correlation between formal sector jobs and GDP growth has weakened considerably. Ostensibly, high GDP growth now does not necessarily mean more jobs and incomes for people. Hence, GDP growth does not impact the common person today as much as it perhaps did four decades ago. GDP growth may be an important economic measure, but it is becoming increasingly irrelevant as a political measure, since it impacts only a select few and not the vast majority.

This divorce of GDP growth and jobs is both a reflection of the changed nature of contemporary economic development with emphasis on capital-driven efficiency at the cost of labour and GDP being an inadequate measure. Nobel laureate Simon Kuznets, who conceived of GDP as a measure of economic performance, never intended it to be the single-minded economic pursuit for a nation that it has now become, and warned repeatedly that it is not a measure of societal well-being. Irrefutably, GDP is an elegant and simple metric that is a good indicator of economic progress which can be compared across nations. But a compulsive chase for GDP growth at all costs can be counter-productive, since it is not a holistic but a misleading measure. As the saying goes, when a measure becomes a target, it ceases to be a good measure.

The excessive obsession over GDP growth by policymakers and politicians can be unhealthy and dangerous in a democracy. If growth in GDP does not translate into equivalent economic prosperity for the average person, then in a one person-one vote democracy, exuberance over high GDP growth can backfire and trigger a backlash among the general public who may feel left out of this party.

Sri Lanka's mass uprising and people's revolution can partly be explained through this prism of the structural break between headline GDP growth and economic prosperity for the people. Sri Lanka produced two lakh jobs for every percentage of GDP growth in the 1990s decade; this dwindled to 90,000 by 2020. While economic mismanagement and political cronyism may have been the trigger for the recent mass protests in Sri Lanka, the underlying malaise is the dissonance between GDP growth and economic prosperity for the average person.

To be clear, this phenomenon is not unique to India or Sri Lanka or to the governance model of any one political ideology or another. The U.S. today produces fewer new jobs for every percentage point of GDP growth than it did in the 1990s. China produces one-third the number of new jobs today than it did in the 1990s for every percentage of its GDP growth.

The fact that employment intensity of economic growth is declining is neither a new finding nor a surprise to most economists. Yet, given its elegance as a measure, most economists and technocrats still focus heavily on GDP growth. But the perils of the obsession over GDP growth will be felt by politicians who have to answer voters on lack of jobs and incomes despite robust headline growth.

The World Bank and International Monetary Fund may proclaim winners among nations in some inane GDP growth contest every year, but when 'fastest' growing economies are unable to provide prosperity and social mobility for their people, this disillusionment is bound to erupt and manifest itself through the political process. Voter disenchantment over the economy not working for them is already rife in many democracies across the world that have catalysed agitations and social disharmony. Electoral outcomes in favour of extreme positions in mature democracies such as the U.S., the U.K., France and Germany in the last decade may partly be a reflection of voters' sense of deception over economic gains.

Back in 2008, the then President of France, Nicolas Sarkozy, assembled the 'Commission on the Measurement of Economic Performance and Social Progress' and tasked Nobel Laureate economists Joseph Stiglitz, Amartya Sen and others to develop a more comprehensive measurement framework of economic and social performance as an alternative to the excessive reliance on GDP as a sole measure. The report concluded that "what we measure affects what we do" and recommended an expanded dashboard of multiple indicators unique for each country.

GDP growth has turned into a misleading and dangerous indicator that portrays false economic promises, betrays people's aspirations and hides deeper social problems. The statistical aphorism 'Everything that counts cannot be counted and everything that can be counted does not count' succinctly summarises the GDP growth paradox facing many democracies today. It is time for India's political leaders, especially those in the Opposition, to not be drawn into facile quibbles over GDP growth every quarter and instead clamour for an overhaul of India's economic performance measurement framework to reflect what truly matters to the common person.

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