

THE PARADOX OF GDP/GNP AS DETERMINANTS OF HUMAN PROGRESS – EFFECTS ON WELFARE AND EQUALITY

Marc Morgan

Senior Freshman

Economic growth is often seen as a panacea that every country must strive towards. Marc Morgan challenges this obsession with economic output, pointing to its many failings in terms of assessing our quality of life. He argues that satisfying materialistic desires does not necessarily lead to human progress, and should not be the primary objective at the expense of equality.

The Paradox of Growth and the Misunderstanding of Progress

The economic model that has presided over most of the western world over the last century has been built on an incessant obsession for output growth. Throughout the century this growth has been viewed as the appropriate measure of society's material living standards, almost without question. This paper posits that it is time to seriously reassess our affinity to GDP/GNP statistics for the very reason that while output growth has been upwardly linear in direction over time growth in basic societal wellbeing has not followed that same direction. It is no wonder that in our schools we are taught as 'consumers' rather than as human beings. This paradox of production going in one direction and human welfare going in another, arouses the suspicion that the production (of goods and services) is no longer in the hands of the people it is meant to satisfy. More worryingly, the case can be made that individuals are not being considered the best judges of their own welfare; that right being reserved for the GDP/GNP demands of competing nations, at the helm of economic 'experts'.

Undoubtedly what should be of interest in any economic model is the welfare of each individual and how it can be maximised to reflect the optimal welfare of society. The notion of 'human progress', used widely in economic and social literature, begs a qualitative framework. Progress, as history should indicate, is less a matter of fulfilling future desires than of eliminating recurring social and economic problems of the past like persisting unemployment, closures, wars and disease. History does again show that growth in GDP/GNP tends to affiliate itself more with the former aim than with the latter. As a result there must be mutual understanding between the needs of society and the needs of the individual, a change from competition to cooperation. Growth of material

output should be replaced by ‘growth of humanity’ (Ridoux, 2009: 11). Ridoux tells us that our focus should not be fixed on purchasing power but rather on ‘*living power*’ (Ibid: 16). In a model of such importance the notion of equality between peoples, how we understand and evaluate it, will be crucial to the development of any future model in the years to come. Misrepresentations of equality, especially in relation to liberty, all boil down to what people themselves want these terms to signify. In other words it all comes down to what type of society we want to live in; under what moral principles. Here I would like to just analyse some of the irrational disputes between proponents of different moral societies, after having dwelled on the issue of which definitions of equality best define the progress we should strive for.

GDP/GNP: Sins of Omission and Alternatives

Since the Great Depression of the 1930’s the economic indicators: Gross Domestic Product (GDP) and Gross National Product (GNP) have established themselves as the standard bearers for neoclassical macroeconomics. The former measures material welfare in terms of the value of output (goods and services) produced by domestic residents within an economy during the year, while the latter measures this welfare as of the value of what is produced, during the same timeframe, in output by all national individuals and enterprises located domestically or overseas. The most obvious criticisms in relation to these indicators as sole measurements of material welfare are criticisms of omission – what the indicators fail to include. These are numerous. For example: ‘the work of volunteers, domestic housework, and the transfer of knowledge or the birth of a human being’ (Ridoux, 2009: 53) are not accounted for in GDP/GNP calculations, simply because they do not necessarily command a price. The same can be said for working hours, length of annual holidays, literacy rates, mortality rates, life expectancy, and environmental pollution among other countless examples. But yet these are all key determinants of material welfare (without a healthy, well educated environment with sufficient free time one could not possibly enjoy the material goods in one’s possession). Furthermore, while the value of output can be measured per head of population (‘per capita’) it discriminates between the ideal parameter and the real parameter in relation to incomes per capita. We should ask ourselves why more attention is given to an average allocation of incomes over the true allocation as measured by the spread of incomes? The well known fact that large variances in income allocation exist requires explanation into why some individuals ‘are wealthier than others – and that depends on factors to do with the structure and dynamic of capitalist society’ (Harmon, 2009:43) which GDP/GNP completely ignores. Since the Great Depression global and national levels of wealth have increased exponentially and yet on average employment and real wage levels have been more or less constant, amid large volatility (Harman, 2009). Ridoux comments how in France, since 1980, ‘unemployment has risen 50 per cent, while, during the same period, GDP has incremented 156 per cent!’ (Ridoux, 2009: 56). This apparent paradox continues to persist because we remain attentive to GDP/GNP statistics empty of any meaningful content.

In the end, given all the data that national accounts provide us with, it would be wise to note what type of materialism we are left with. Ideally, national accounts would also reveal the nature of what is produced in an economy during the year, but they of course do not. This in itself is a major worry when we have an economic model which heavily relies on material welfare as a measure of an individual's personal welfare. It is not always the case that when material welfare increases, overall well being will increase. As John Kenneth Galbraith put it quite bluntly, it is 'the weapons culture which underlies the macroeconomic stabilization of the economy'¹, but contradictory to the notion of human welfare, a culture 'thoughtfully designed to destroy all life' (Galbraith, 1958: 257). It is of no surprise then that a distortion exists between the happiest/healthiest countries in the world and the richest. According to the Happy Planet Index (HPI) the countries topping the global HPI list come largely from Central America, South America and the Caribbean – parts of the world where GDP/GNP levels would show otherwise. Criticism of output growth as counting for individual well-being is evident from proposed alternative indicators to GDP/GNP. For example under the criterion of 'life satisfaction' the HPI has found that 'the averages for countries tend to be higher where people within that country enjoy higher levels of social capital, better climate, richer natural resources, higher life expectancy, better standards of living and more voice within government' (Happy Planet Index Report 2.0, 2009). No explicit preference is given to material wellbeing or (abstract) output growth. Other indicators like the Human Development Index (HDI) or the Genuine Progress Indicator (GPI) alongside the HPI represent real progress in attempting to address problematic distortions in human welfare evaluation. While not identical in their respective measurement procedures these indicators do all presuppose that individuals themselves are the best judges of their own welfare.

Judges of Wellbeing: Problems with Equality and the GDP/GNP-Inequality Paradox

This is an issue not often debated but crucially important to understand. It concerns the problem of free will. If we can classify self management as a good in itself, as I see it, then once people are granted control of their own economic lives a freedom to judge themselves should also logically follow. Nevertheless defining the individual within a collective, resulting in society becoming the best judge of an individual's welfare might be a more desired approach. As John Stuart Mill states (echoing Jesus of Nazareth): '...laws and social arrangements should place the happiness or the interest of every individual as nearly as possible in harmony with the interest of the whole' (Mill, 2001: 17). So the optimal quest for humanity is to ensure that society as a whole becomes the best judge of an individual's welfare, as determined by the individual judgement of the welfare others, allowing for the harmony Mill speaks about between the subject and the collective.

Such a scheme would require the condition of *equality* amongst its subjects. Once this term is mentioned, however, difficulties tend to arise in what it actually means to be equal, and how its

¹ Here Galbraith is making particular reference to the US economy, but the same line of reasoning could hold for countries of the Middle East, Russia and China at present, as well as much of Europe during the 1940's.

attainment is supposed to be measured? Are we concerning ourselves with equality of opportunity, equality of outcome, equality of contribution or an equality of effort? What can be pointed out is that the first three heavily rely on factors outside of an individual's control, while the latter notion of equality 'is something people have control over' and hence it is believed that only 'greater sacrifice deserves greater reward...' (Hahnel and Albert, 2002b: 28). But given the lack of a quantitative measurement for equality, how can we ever assign rewards to characteristics of a notion that we can't come to commonly define? If we strive for income levels as being the measure then we face the problem of utility because 'different people derive different amounts of satisfaction from the same income levels' (McAleese 2008: 42). Then there arises the issue with quantifying such utility, is the satisfaction of purchasing power measurable?

Equality of contribution, considered by many right wing liberals to be the essence of human freedom (Nozick, 1974) turns out to face similar obstacles. The fact is that 'people will always have different abilities to benefit others' (Hahnel and Albert, 2002a: 9) not to mention different financial positions. This in turn causes major difficulties for any equality of welfare. Equality of outcome encounters the discrimination of different levels of effort, simply transferring injustices from the sphere of unequal opportunity to unequal effort and uniform outcome. Tying in neatly with the goal of creating a harmony between the individual and the collective, whether in the workplace or within the larger society, in the words of Hahnel & Albert 'there is no better way to judge efforts than by a jury of fellow workers who serve on an effort rating committee on a rotating basis' (Ibid, 2002a).

Those who are not yet convinced of this procedure might think the easiest route to take is to turn our back on achieving equality and attempt to avoid *inequality*. But only by knowing its causes can inequality be eroded, and it seems that throughout moral scholarship inequality stems from a denial of an equality set by the original state of nature (Rousseau, 1984). This is caused by society's urge for material accumulation which can arguably be encouraged and shaped by the infinite demands of GDP/GNP measurement. If all the output produced under GDP/GNP measurement is not consumed then the danger of an overproducing economy forces the domestic population to consume this output under the false image that it will increase an individual's material welfare. But with its disregard for an individual's initial economic endowment a market economy only recognises those individuals in possession of the only true free entity in the economic world – capital. Global inequalities then are essentially enhanced by the concentration of capital among (certain) competitive individuals with concentrated goals to accumulate material goods. So as the production of these goods increases the gap between those controlling production and those doing the producing widens. Nevertheless an economy under such conditions would be *richer* according to GDP/GNP figures. The reality and impact of capital's dynamism as warned by Marx (1867), as well as its paradoxes might return those who sought efforts to avoid inequality back into the realm of promoting equality. For these renewed souls this might constitute a case for supporting an equality of opportunity, albeit that these circular movements of opinion could make a case for questioning society's actual desire for equality.

Is Equality Part of Human Progress?

Any form of equality requires an objective stance in its defence if human progress is to be truly representative. The liberty principle (Rawls, 2003) associated with most branches of equality, it is argued, would be one certainly chosen by individuals if they were not going to know their place in society; in the words of John Rawls from the 'original position' (Ibid: 104) While under this 'veil of ignorance' (Ibid: 129) any individual would choose an outcome that would minimise personal liability, in whatever sense. No one, argues Rawls, would run the risk of possibly being given 'the life of a slave'. (Cryan and Shatil, 2009: 151) From this original standpoint equality is argued as a means to achieve greater social justice, which if absent can eventually result in a barbaric state of war of man against man. This argument, highlighting the universal threat of a destructive society over an equitable society can only be viewed from historical accounts of mass protests and demonstrations even in so called 'developed' countries. The Paris riots in 1968 only help to frame the argument supporting a morally developed country over any 'economically efficient' alternative, relying solely on GDP/GNP statistics. This in itself would constitute progress.

Robert Nozick, a Harvard colleague of Rawls, looked at liberty, or equality of choice, from a different perspective altogether. In his book *Anarchy, State and Utopia* (1974) Nozick acknowledges an individual liberty associated with the right to life, a right universally shared but individually determined. This latter point being critical for Nozick since any intervention to the natural liberty assigned to life would in itself be a constraint on freedom. What this goes on to suggest in correlated arguments is that any measure taken by a government or otherwise to ensure a distributive equality will only serve as a disincentive to be productive, since this action would appear to curtail any notion of equality of effort or contribution, under instruments like progressive taxation, as argued similarly above. Nozick's argument in fact only helps to advance the notion of equality of effort, and not equality of choice, since it fails to explain why in all developed economies the preferences of some individuals seem to matter more than the preferences of others, when it comes to economic choice. This development has to do with the dynamism of capital and the privileged position of GDP/GNP statistics, as has been discussed throughout.

Rewarding people according to sacrifice, rather than contribution or end results which are components of GDP/GNP measurement would constitute human progress since it resides in factors within the control of human beings. The question begs: do we want a morally developed society or an 'efficient' but empty economy? This being the ultimate paradox: morality and efficiency not having a common origin.

Conclusion

For any desired future society it is clear from the above portrayal that the economic model that is to be proposed must be subject to the rights and needs of humankind. A model which is built on saturating the infinite demands of output growth and materialistic desires will only result in us dealing once again with problematic notions regarding the rights of man which should already be presupposed in the development of any society. The paradox surrounding GDP/GNP growth should illustrate the dangerous road towards their approval. Between liberalism and equality, we may go through many more years in dispute until a change of mentality is finally attained. We might start by promoting equality of effort and reward individuals accordingly which would be more motivational and satisfactory for humanity at large.

One source of inspiration might come from John Maynard Keynes when he advocates, contrary to GDP/GNP demands, that we should work ‘three-hour shifts or a fifteen hour week...’ increasing solidarity and permitting the sharing of a production already achieved (Keynes, 1972: 329). Human progress could only then be liberated from the constraints of GDP/GNP measurement and begin its upward journey. Looking in the direction of the Caribbean might provide another source.

References

Cryan, D and Shatil, S. 2009. *Introducing Capitalism: A Graphic Guide*. London: Icon Books Ltd.

Galbraith, J. K., 1999. *The Affluent Society*, London: Penguin Books.

Hahnel, R and Albert, M. 2002a. ‘In Defence of Participatory Economics’. *Science & Society* 66: 1: 7-21.

Hahnel, R and Albert, M. 2002b. ‘Reply’. *Science & Society* 66: 1: 26-28.

Harman, C. 2009. *Zombie Capitalism: Global Crisis and the Relevance of Marx*. London: Bookmarks Publications.

Happy Planet Index Report 2.0, 2009: <http://www.happyplanetindex.org/explore/global/>

Keynes, J.M. 1972. ‘Economic Possibilities for our Grandchildren’. *Essays In Persuasion: The Collected Writings of John Maynard Keynes* IX: 321-332.

Marx, K. 2008. *Capital*. Oxford: Oxford University Press.

McAleese, D. 2008. 'Policy Objectives and Issues for a Regional Economy' in O'Hagan, J and Newman, C (ed.) *The Economy of Ireland*. Dublin: Gill & Macmillan Ltd.

Mill, J, S. 2001. *Utilitarianism*. Indianapolis: Hackett Publishing Company.

Nozick, R. 1971. *Anarchy, State and Utopia*. Oxford: Basic Books Inc.

Ridoux, N. 2009. *Menos Es Más: Introducción a la filosofía del decrecimiento*. Barcelona: Los Libros Del Lince.

Rousseau, J,J. 1984. *A Discourse on Inequality*. London: Penguin Books.

Rawls, J. 2003. *A Theory of Justice*. Boston: Harvard University Press.