Are we too obsessed with growth as measured by the real GDP?

By Todd Hirsch
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Since the end of the global recession in 2010, one question has loomed over economic and central banking conferences: What happened to growth?

From emerging markets to the wealthy, industrialized countries, the pace of economic expansion has failed to impress.

It wasn't supposed to be this way. The BRICS had held out such bright hope as beacons of global growth, continuing to lift commodity prices and consumer markets for everything from Coca-Cola to new iPhones. But these hopes were always pinned to a flimsy premise. Now, at least two of the BRICS are in recession, and forecasts for the other three have consistently been scaled back.

Europe and North America are in better shape than they were in 2010. But surely with the amount of fiscal and monetary stimulus they've seen, one could reasonably expect more. Even the bold experiments with negative interest rates in Japan and Europe are failing to do much.

Here in Canada, the federal government has struck a task force of impressive economists to provide ideas for how Ottawa can pump up the country's growth rate. Meanwhile, the Bank of Canada Governor is suggesting slow economic growth may be the new normal. The gains from liberalized global trade that supercharged growth in the past have largely been exploited.

And even this week, equity markets swooned and oil prices dropped – all on fears that global GDP growth is disappointingly slow.

But an interesting question comes out of all this. Are we unduly obsessed with growth as measured by the real GDP? It is, after all, a very imprecise tool to gauge progress. (Full disclosure: I lead an economics group at a financial institution, and the first indicator we forecast each quarter? Growth in the real GDP!)

The system of national accounts that measures the GDP was a product of the post-WWI world, when factory production and agricultural output were the primary economic drivers. How many new cars or tanks or bushels of wheat are produced is easy to count.

But in 2016, the service sector has taken a much larger role. How do you measure output when the banking, entertainment, communications and travel sectors are evolving so quickly? If more people are staying home to watch streaming video content rather than spending $40 at a theatre, it counts as a drop in the GDP. But we are not worse off.

Then there's the rise of the "sharing economy," which throws another wrench into how we measure economic activity. Car sharing, Airbnb, community vegetable gardens – increasingly, consumers are less interested in buying and owning things they use only occasionally. Why buy a drill that you'll use five times a year when you can borrow one at a tool library? Sharing a drill is bad for the real GDP but, clearly, consumers are not worse off. In fact, they are better off.

Even worse, the GDP also counts bad things as positive. Natural disasters, such as tsunamis, earthquakes and ice storms, stimulate all sorts of spending in the form of rebuilding. This boosts the real GDP, but clearly we'd be better off had the disaster not happened.

Why do we want economic growth at all? Broadly speaking, there are two reasons.

The first is that a growing economy usually creates new jobs. The second is that it creates

revenue for pension funds and government coffers. And these two are intricately connected in a self-reinforcing feedback loop. The more jobs, the more revenue and income, which helps create new jobs, and so on.

But is an expansion of the real GDP actually necessary to create new jobs and provide a growing standard of living? That's a more complicated question that requires a fundamental rethink of traditional economics.

Rather than chasing our tails with an endless obsession over the real GDP, perhaps economists and policy wonks would be of greater service targeting those metrics that actually do promote job creation and prosperity. Education levels, preventative health care, environmental well-being, innovation and R&D … all of these help create new jobs, which in turn generate revenue for governments.

But they may or may not directly boost the size of the economy – at least not as measured by the real GDP.

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