

Why GDP is your everyday life

By Ramathan Ggoobi

Many people, especially non-economists, often wonder why economists emphasise GDP more than any other economic concept. It is not uncommon to hear people wondering, “Are we going to eat GDP?”

During my days as a teacher of economics at university, one of my favourite topics was, “why economists care about GDP”. I approached my teaching of this topic by asking my students to mention what they cared about most in life.

They often cited a “good” job paying, a “good” wage, availability of life sustaining goods and services at affordable prices, among others. Some cited owning a nice house, a cool car, and all sorts of material goods. Others mentioned family and friends, good healthcare, quality education, a clean environment, and so on.

Then, I would intervene by summarising the long list of things we all, human beings, care about using one word – HAPPINESS.

I proceeded to tell my students that happiness generally depends on three key things; freedom of choice, self-esteem, and income. No human being with those three things has reported unhappiness.

Freedom of choice touches many things, including basic ones like; the type of meal one may afford or not, as well as being free from misery, ignorance, and dogmatic beliefs.

Self-esteem is about one feeling ‘complete’ as a person, or having a sense of respect, recognition and not have a feeling of being used as a tool by others for their own ends.

For income or money, we all know how important it is. It is the grease that lubricates the wheels of our daily lives by enabling us to meet the basic needs of life in a sustainable way and with reasonable flexibility.

What is GDP?

The reason economists emphasise GDP is mainly that it is highly correlated with these three goals of humanity. Despite its inherent shortcomings, GDP is critical in meeting all of them, and below is how.

For starters, economists use the acronym GDP (gross domestic product) to mean the monetary value of final goods and services produced in a country, usually in a year.

When GDP grows, a society is able to find ways to produce more of the goods and services that its citizens need. We all need good health, a house to live in, education for our children or ourselves, good food, peace and security, a healthy environment, social connections and respect, and generally a life full of happiness.

All these things depend primarily on having own money. Often people do not derive as much happiness from free money or dependency as they do from earned income.

This is why we wake up every morning and jump into taxi, onto a boda-boda or bicycle, or a personal car to rush to the city to work or trade. Others walk to their gardens and farms to produce.

We work because we want to access goods and services that make life meaningful and enjoyable to live. Whatever we produce from our daily sweat is what economists condense into an abstract monetary measure called GDP.

Have a look around yourself right now. Many of the things you see are products that were produced by someone so that you can use them. Let's start with that shirt/dress you are wearing, the device/sheet you are using to read this, the electricity that powers the device, the chair you're sitting on, the roof over your head, the car, bus, taxi or bicycle you took to get to where you are, the road on which you travelled to where you are, the food you had this morning, the medication you will receive when you fall sick and the list goes on.

Yes; you actually 'eat' peace!

At some point in the past, many of these products were not available. Some were not available even just last year, others many years ago. Whereas GDP is the abstract measure of all these goods and services, the abstraction should not make us lose the mental connection to these goods and services we often take for granted when we finally secure them.

For example, I have often heard people, while debating the budget that allocates money for security, ask; “Are we going to eat peace/security?” I often quietly answer them in my mind, “Yes; you actually ‘eat’ peace or security.” If you doubt this, let one bullet be shot near a restaurant and you see how everyone will abandon what they thought was more important — the pieces of chicken, beef and beer in front of them.

Most of the goods we often take for granted make more sense when we can’t find or afford them. That piece of soap at home, the light at night, the water running through the taps, that toilet paper roll, that food you can now afford to leave on the plate and trash away, the education you acquired to make you qualified to be (temporarily) unemployed but not unemployable, etc.

When we tell you that Uganda’s GDP has grown by 5.2% (like it did last year), we mean that the quality and availability of those goods and services to care about has increased. It means Uganda now has more food, more public infrastructure (paved roads, electricity, internet cables etc.), or generally more money for Ugandans.

Therefore, when the Government says GDP has grown, we mean that your life has been made better off by producing more of the goods and services that sustain it.

I see many Ugandans and other global citizens coveting the life in America or Europe. Why? It is mainly because those developed economies have higher GDP and GDP per capita that enables most of the citizens to have higher incomes, wider freedom of choice, and higher self-esteem.

For example, America’s higher GDP per capita (of over \$70,000 or Shs 266 million) enables American mothers to afford their children more freedom to choose the meals they want to have, more clothes, and other stuff that make life more enjoyable.

GDP and non-material wellbeing

Therefore, all we need to do to enable Ugandans afford a standard of living equivalent or even higher than what Americans enjoy, is to accelerate our GDP growth such that our GDP per capita could expand from the current \$1,067 (or Shs 4 million).

By the way, the freedom of choice on account of the level of country’s GDP per capita is not limited to material things. It also impacts choices such as marriage partners. Most marriages in Africa are usually based on societal biases such as; tribe,

religion or socio-economic status. This is often associated with low levels of education and generally poorer societies (and thus low GDP).

As societies accumulate GDP, their populations tend to get liberated from such biases. Education, higher incomes, and thus improved standards of life (you may call it ‘family GDP’) tend to make societies more tolerant and standardised.

With higher GDP, even the self-esteem of citizens gets enhanced. Psychologists tell us that self-esteem may be affected by materialistic indicators of self-worth, like the kind of car one drives, the school your kids attend, the size of one’s house, or one’s title at work or in society. This is where GDP comes in.

Poor societies tend to limit not only their people’s ability to earn higher incomes, but also their ability to achieve the things that build self-esteem.

We sometimes hear people say money is not everything. Well, to appreciate the significance of money, try living without it!

While computing GDP, statisticians sum up the incomes received, in a year, by each of the four major economic agents; workers (wages), asset owners (rent), capital owners (interest), and entrepreneurs (profit).

From GDP growth to transformation

So, higher GDP implies higher wages, higher rent, higher interest earned on savings, and higher profits made in business. Public servants in Uganda, particularly those in the lower echelons, earn low wages. Some have for years been taking industrial action to force the Government to raise their salaries and allowances.

It is not the Government’s intention to pay low wages. It is on the account of low government revenue, yet the requirements for the little money are many. The solution to this will be increasing the GDP such that tax revenue increases to enable the Government pay higher salaries. There are no shortcuts.

As our GDP rises, incomes earned by all economic agents will increase, thereby creating more GDP in turn. The cycle will continue until the country affords all the things people agitate for.

Since GDP was devised in 1937, it has been held aloft as the best barometer by which a nation’s economic success or failure – and that of its people – is measured. Despite

its known limitations, GDP is considered to be the most accurate indicator of a country's economic activity; a measure of material well-being.

Our current strategy is pursuing both GDP growth and socio-economic transformation. In the latter, we intend to move the economy from an extractive, subsistence-based economy to a modern fully-monetised economy.

The target is to get more Ugandans who are currently stuck in subsistence to move into activities that earn them income. Therefore, next time you hear H.E. the President or my Minister telling you how GDP or GDP per capita has grown, please know that by extension, they are telling you that your material well-being or that of your neighbour is getting better.

The writer is an economist and the Permanent Secretary Ministry of Finance and Secretary to Treasury