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Episode #098

GDP & Measuring Growth

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[00:00:00] Hello, hello hello, and welcome to English Learning for Curious Minds, by Leonardo English.

[00:00:11] The show where you can listen to fascinating stories, and learn weird and wonderful things about the world at the same time as improving your English.

[00:00:21] I'm Alastair Budge and today we are going to be talking about GDP, Gross Domestic Product, and thinking about how we measure growth.

[00:00:33] You are probably familiar with GDP as a broad measure of 'how well things are going'.

[00:00:40] In the news we're **bombarded**¹ with statistics about GDP going up or down, with political leaders using it as a way to show how well they are doing.

¹ (of information) continually presented by



GDP & Measuring Growth

[00:00:52] But what actually is GDP, what does it tell us about how our lives are improving, why do people think we should abandon it as a measure of growth, and what would a world without measuring GDP look like?

[00:01:08] That is all to come in today's episode.

[00:01:11] Before we get right into that though, let me just quickly remind you that you can get all of the bonus episodes, plus the subtitles, the transcript, and the key vocabulary for this episode and all of our other ones over on the website, which is leonardoenglish.com.

[00:01:29] This is also where you can also check out becoming a member of Leonardo English, and join a community of curious minds from all over the world, doing meetups, exchanging ideas, and generally, improving their English in a more interesting way.

[00:01:44] So if that's of interest, and I certainly hope it is, then the place to go to is leonardoenglish.com.

[00:01:53] OK then, GDP and measuring growth.

[00:01:57] For millennia, for thousands of years, most societies didn't really have a formal way of measuring how well they were doing. There might be how much money a king or queen took in through taxes, or how many years a country had gone without a war, or how much corn was produced by its people that year, but there was no universal measurement that answered the question 'how are we doing?'



[00:02:27] On an individual level, people might do better or worse as the years go by.

[00:02:34] With **agrarian**² societies, farming societies, naturally a lot of this was based on the weather - the right mix of sun and rain might lead to a **bumper**³ **harvest**⁴, and a **drought**⁵ might lead to **famine**⁶.

[00:02:49] This wasn't really within their control, so why bother **obsessing**⁷ over whether one year was better or worse than the previous one?

[00:02:59] So how did we arrive at this system of GDP growth being 'the' measure of how well we are doing, of being the measure that is considered the ultimate mark of how things are going in a country?

[00:03:16] It all goes back to the start of the 20th century, almost 100 years ago.

[00:03:23] An economist called Simon Kuznets was trying to understand the impact of the Great Depression in the United States, and came up with a metric that took everything that was produced in a country, apart from money that was spent by the government, and added it all up.

² relating to the land or farming

³ very large

⁴ the crops that have been gathered

⁵ a period where there is very little rain

⁶ a situation where there is not enough food for the population

⁷ thinking about something a lot



GDP & Measuring Growth

[00:03:43] The idea behind doing this was to see how bad the Great Depression really was.

[00:03:50] If you can't measure it, it's hard to properly understand it.

[00:03:54] This idea was then developed by the famous economist John Maynard Keynes during World War Two, who changed it slightly to include government spending.

[00:04:05] Maynard Keynes saw that the government was spending a lot of money on the war effort, and this was economic activity, so it should be counted towards this number.

[00:04:17] So, GDP is a number, it's what you get when you add everything together in an economy that you can measure.

[00:04:24] To calculate it you have to add up consumption, so what people buy, whether that's goods, like a sandwich, or services, like a haircut or a membership of Leonardo English.

[00:04:37] Then you add into that government spending, investment that's made by companies and individuals, and the final part is net exports, so that's the difference between how much a country exports and how much it imports.

[00:04:54] Importantly, if a country imports more stuff than it exports, this means this number is negative, so reduces the GDP total.



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[00:05:05] In a country like the US, consumption is the largest part of GDP, normally about two thirds of all GDP. So when people stop spending, GDP drops.

[00:05:18] There are a few different ways of calculating GDP, but they should all, theoretically, lead to the same number.

[00:05:27] And politicians, [policymakers](#)⁸, and economists all want this number to go up every year, and the GDP of the world has gone up every single year since 1961, with one exception, 2009. The next exception will probably be 2020, of course.

[00:05:47] In any case, this number has been going up and up overall, and we have become obsessed with it.

[00:05:54] Its main advantage is that it's quite easy to measure.

[00:05:58] You do your calculations, and you get a number in the end, and you can compare that to other countries and to previous years.

[00:06:06] It's easy, or at least it's easier than some of the alternatives.

[00:06:12] But there are quite a few problems with using it as a way to measure the 'growth of a society', there are some negative [implications](#)⁹ of focussing on growth as an end goal for the world, and there are some interesting ideas proposed about what we can do about this.

⁸ people who decide what a government's policies should be

⁹ consequences



[00:06:31] So, problems with GDP.

[00:06:35] To start with, GDP was never intended to be a measure of ‘how well we’re doing’.

[00:06:42] Even when it was created, its creator, Kuznets warned against using it as a measure of [welfare¹⁰](#), of using it as a measure of how well people are doing.

[00:06:54] He warned that it counts how much stuff is being bought and sold, but not how happy we are.

[00:07:02] This was back in 1934, remember.

[00:07:05] In the post-war years, as being able to buy more stuff and rising incomes generally meant higher standards of living in many countries, better healthcare, better schooling, improved technology, which did make people’s lives better, GDP was a pretty ok metric for answering the question ‘how are we doing?’

[00:07:28] If you were able to buy more things like dishwashers, cars, and medicine to help you live longer, your life probably was getting better.

[00:07:38] But in recent years, as GDP growth hasn’t translated into better standards of living for lots of the developed world, there have been [renewed¹¹](#) criticisms of its usefulness.

¹⁰ health and happiness

¹¹ starting again



GDP & Measuring Growth

[00:07:52] The first one is about how it's actually calculated.

[00:07:57] It adds everything that's bought and sold, everything that's measurable, no matter what that thing is.

[00:08:05] If something is 'free', then it isn't included in GDP.

[00:08:10] If I read a fantastic book, then I give that book to my friend and she reads it and also thinks it's fantastic, then only me buying the book will be counted in the GDP calculations.

[00:08:24] But if I read this fantastic book, refuse to give it to my friend after I finished and say no, you go and buy it yourself, and she does buy it, then this would be counted as twice as good from a GDP point of view.

[00:08:39] Or to make this example even more ridiculous, if I read a fantastic book, refuse to give it to my friend so she has to buy it, but then I take the book, I light it on fire and throw it into her apartment so her apartment burns down, she has to buy a load of new stuff for her apartment, and I get taken to prison, then all of that would count as excellent economic activity and would be great for the GDP numbers.

[00:09:07] Which of those three situations would make everyone happier?

[00:09:12] Now, that's obviously a bit of a silly and unrealistic scenario, but it helps

[illustrate](#)¹² the limitations of GDP.

¹² show



[00:09:21] If a company gets the permission to build a coal power station in a natural park and hires 1,000 people but they all have horrible jobs, and the power station sends black smoke all over the park, spoiling it for all the visitors, and of course putting millions of tonnes of carbon into the atmosphere, the only thing that's counted there from a GDP point of view is the amount of money that those employees spend and the amount of money invested by the company.

[00:09:53] If you contrast that with, let's say, a company that is [tasked with](#)¹³ planting trees and [regenerating](#)¹⁴ a natural park, invests the same amount of money, hires the same 1,000 people on the same salaries, they all love their jobs, and it makes the natural park way more attractive for guests, and actually takes CO2 out of the atmosphere, then this would have the same GDP impact as our first [scenario](#)¹⁵.

[00:10:21] I'm sure you'd agree that they don't have the same impact on everyone's quality of life.

[00:10:27] Another criticism of GDP is that it doesn't factor in anything that is unpaid, such as housework, childcare, or time spent not working.

¹³ given the job of

¹⁴ making something redevelop and grow back to its previous state

¹⁵ a situation that could happen



GDP & Measuring Growth

[00:10:39] One factor that contributes to the US having a higher GDP per capita, a higher GDP per person than a country like Germany is that the Germans take a lot more time off, a lot more holiday than their US [counterparts](#)¹⁶.

[00:10:55] If you aren't working, you aren't producing, and so you don't appear in the GDP calculations.

[00:11:01] If you are buying stuff, sure, you have an impact, but if you have the most fantastic hike in the mountains, a football game with your friends, or just an afternoon playing with your kids, that isn't going to [factor in](#)¹⁷ the total GDP.

[00:11:18] The other main complaint that is [waged](#)¹⁸ at GDP is that it doesn't always [reflect](#)¹⁹ how well the average person is doing in a society.

[00:11:28] To get GDP per capita you divide GDP by the number of people in a country.

[00:11:34] If GDP per capita goes up, this suggests that everyone is doing better, but GDP per capita can go up even if the lives of most people don't get any better, or it can do even if the average person's life is getting worse.

¹⁶ a person or thing that has the same job in a different place

¹⁷ consider

¹⁸ (of a criticism) directed towards

¹⁹ show, be a sign of



[00:11:55] This isn't just [theoretical](#)²⁰, it's exactly what happens in countries with high levels of inequality.

[00:12:02] In the US the incomes of the richest 1% have more than tripled since the 1970s, while real wage growth for ordinary people has remained [stagnant](#)²¹, it hasn't really moved.

[00:12:16] But for almost every year since 1970, GDP per capita in the US has risen.

[00:12:24] So GDP can give the [illusion](#)²² that everyone is better off, even if this isn't the case. It doesn't reflect inequality at all.

[00:12:36] And finally, from an environmental point of view, GDP assumes that everything has the same value, as our earlier example of the coal power plant demonstrated.

[00:12:48] Evidently, lots of economic activities have a negative environmental cost to them, a cost which will be paid by future generations, and this isn't accounted for anywhere in GDP.

²⁰ based on ideas, not practical

²¹ not moving

²² an idea of belief that isn't true



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[00:13:01] The [relentless](#)²³ focus on increasing GDP is also considered to be one of the main reasons that we are struggling to meet the carbon emissions reduction targets.

[00:13:13] A focus on GDP as a measure of how society is getting better does nothing to discourage environmentally-unfriendly activities, and our society has actually been structured to [incentivise](#)²⁴ more, not less consumption, which comes at an environmental cost.

[00:13:33] From clothes to washing machines, everything we buy has an environmental cost to produce, transport, and sell, and if we could only consume less of it, so the argument goes, that would be a very simple way of reducing our carbon footprint.

[00:13:53] But the focus on GDP means any reduction in consumption is considered 'bad', and should be avoided.

[00:14:01] A government could, for example, create [legislation](#)²⁵ that required things like fridges, washing machines, or consumer electronics to last longer, or to have longer [guarantees](#)²⁶, but doing so would mean people would buy less of them, which would lower GDP.

²³ not stopping

²⁴ to make someone want to do something

²⁵ a set of laws

²⁶ (of a product) a promise to repair or replace something if it breaks within a period of time



[00:14:21] So you can see why using GDP as a measure of 'how well we're doing' is quite problematic.

[00:14:29] Not all countries have settled for GDP as a measure of success though, and there are some really interesting ideas about how to better measure 'how we're doing'.

[00:14:42] You may have heard of how this is being done in Bhutan, the Buddhist country in the Himalayas, between the economic [powerhouses²⁷](#) of India and China.

[00:14:52] Since 2008 Bhutan has been measuring something called GNH, Gross National Happiness, as an alternative to GDP, but the idea has been popular in the country since the 1970s.

[00:15:08] The idea is that the country should be able to measure the overall happiness of its population.

[00:15:16] If people are getting happier, then that's a good thing. If people are not getting happier, then it needs to figure out why that's not happening and do something about it.

[00:15:27] GNH, the Gross National Happiness, is then calculated based on 9 different things: well-being, health, how that person uses their time, their education, cultural

²⁷ countries with a lot of influence



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diversity and [resilience](#)²⁸, good [governance](#)²⁹, community [vitality](#)³⁰, ecological diversity and [resilience](#), and living standards.

[00:15:54] The end result is a number for that individual, which is then averaged out and they get a score for 'how happy they are'.

[00:16:03] In this example someone who worked 100 hours a week in a high-paying corporate job but had [chronic](#)³¹ back pain and never saw their family would get a lower score than someone who worked 30 hours a week but saw their friends and family every day.

[00:16:21] Of course, if you were measuring this by GDP, our high-powered but sad and [pained](#)³² corporate worker would score a lot higher.

[00:16:30] Now, there are plenty of criticisms about how this happiness index is actually [implemented](#)³³ in Bhutan, but the principle is quite [appealing](#)³⁴.

²⁸ the ability to survive despite difficult conditions

²⁹ the way in which a country is governed

³⁰ energy and strength

³¹ continuing for a long time

³² suffering physically

³³ started using

³⁴ attractive



[00:16:41] If we, as humans, want to be happy, then surely measuring our happiness and trying to help everyone in society be as happy as they possibly can be must be a good thing?

[00:16:53] This, of course, isn't the only [approach³⁵](#) though.

[00:16:57] You may be familiar with the OECD's Human Development Index, which takes into account GDP per capita, but also life expectancy and education.

[00:17:10] The idea being that the amount of money you have and the economic activity you produce matter, but also how long you live and what kind of an education you get.

[00:17:22] Can you guess the countries that come out highest here?

[00:17:26] In 2019, Norway was number one, Switzerland number two, and Ireland was number three.

[00:17:34] However, the Human Development Index has come under criticism because it just focuses on inputs, not outputs, it focuses on what goes in, not what comes out.

[00:17:47] With education, for example, it takes into account how long a child goes to school, not the quality of the education they get.

[00:17:57] So in 2018 the World Bank released a new metric, something called the Human Capital Index, which measures things like the percentage of children that

³⁵ way of doing something



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survive past the age of 5, but also how healthily they grow, and how well they are educated.

[00:18:17] Can you guess the countries that come out highest in this one?

[00:18:21] They're actually all in East Asia - Singapore is number one, South Korea is second, and Japan is third.

[00:18:30] Qatar, the country that occasionally comes out top in the GDP per capita charts, because of its large oil reserves, is number 60 in this index, between Montenegro and Georgia.

[00:18:44] There is another really interesting idea called the Genuine Progress Index, the GPI.

[00:18:51] The idea behind this is to measure 'growth' like you might do in a business, you add up all of the good things, the income you receive, and you subtract from that the negative things, the costs.

[00:19:06] So like with GDP, you add up things that are bought and sold, but you take away from this the costs, so things like inequality, pollution, and so on.

[00:19:18] The theory is that this will give you a real, fair, and long-term view of how well a country is doing, and how healthy its growth is both for the people living there now, and for the people living there in 10, 20, or 100 years from now.

[00:19:37] So, there are plenty of alternatives for GDP, and for measuring how we grow.



[00:19:43] And there are those that say we should [ditch](#)³⁶, we should get rid of this constant [pursuit](#)³⁷ of growth forever.

[00:19:51] So what would that actually look like?

[00:19:55] The good news is that for developed countries, once most people's basic needs are met, growth doesn't seem to lead to better [outcomes](#)³⁸ and happier people.

[00:20:07] The United States is the classic example here of a [relentless pursuit](#) of economic growth.

[00:20:14] Despite having one of the highest GDP per capitas, and being one of the richest countries in the world, there are plenty of countries with much lower GDP per capitas that have much better life expectancies, better schooling, and better healthcare.

[00:20:32] Indeed, South Korea and Japan, both countries that have a GDP per capita of almost one third less than the US have much higher life expectancies and, as we've heard, [rank](#)³⁹ much higher on the human capital index.

³⁶ stop using

³⁷ chase of something

³⁸ results

³⁹ have a position in a list



[00:20:49] This all seems to be evidence to suggest that [abandoning⁴⁰](#) GDP growth as an idea wouldn't actually be so terrible at all.

[00:20:59] It would evidently take a huge [shift⁴¹](#) in [mindset⁴²](#), and a new way of thinking about our lives and what we want to achieve, but if the example of the past 20 years or so is anything to go by, not all growth is equal.

[00:21:15] And GDP as a measure is a pretty poor way of measuring how well we're doing.

[00:21:21] As Robert Kennedy, the American politician, and brother of JFK said in his presidential campaign of 1968 about GDP, "it measures everything in short, except that which makes life [worthwhile⁴³](#)."

[00:21:40] OK then, that is it for today's episode on GDP and measuring growth.

[00:21:45] It's a fascinating topic, and I do wonder how many countries will move away from GDP as their north star in the coming years.

⁴⁰ leaving

⁴¹ change

⁴² a way of thinking about something

⁴³ useful and important



[00:21:55] And if, perhaps, someone is listening to this in 50 years time, firstly, hello, greetings from 2020, and secondly, I wonder whether this focus on GDP will all seem very weird to you.

[00:22:10] But for those of you listening in 2020, I would love to know what you thought of this episode.

[00:22:15] You can head right into our community forum, which is at community.leonardoenglish.com and get chatting away to other curious minds, as well as to me.

[00:22:25] I can't wait to see what you have to say.

[00:22:28] And as a final reminder, if you are looking to improve your English in a more interesting way, to join a community of curious minds from all over the world, and to unlock the transcripts, subtitles, and key vocabulary, then the place to go to is leonardoenglish.com

[00:22:46] You've been listening to English Learning for Curious Minds, by Leonardo English

[00:22:51] I'm Alastair Budge, you stay safe, and I'll catch you in the next episode.

[END OF PODCAST]



Key vocabulary

Word	Definition
Bombarded	(of information) continually presented by
Agrarian	relating to the land or farming
Bumper	very large
Harvest	the crops that have been gathered
Drought	a period where there is very little rain
Famine	a situation where there is not enough food for the population
Obsessing	thinking about something a lot
Policymakers	people who decide what a government's policies should be
Implications	consequences
Welfare	health and happiness
Renewed	starting again
Illustrate	show
Tasked with	given the job of



Regenerating	making something redevelop and grow back to its previous state
Scenario	a situation that could happen
Counterparts	a person or thing that has the same job in a different place
Factor in	consider
Waged	(of a criticism) directed towards
Reflect	show, be a sign of
Theoretical	based on ideas, not practical
Stagnant	not moving
Illusion	an idea of belief that isn't true
Relentless	not stopping
Incentivise	to make someone want to do something
Legislation	a set of laws
Guarantees	(of a product) a promise to repair or replace something if it breaks within a period of time
Powerhouses	countries with a lot of influence
Resilience	the ability to survive despite difficult conditions



GDP & Measuring Growth

Governance the way in which a country is governed

Vitality energy and strength

Chronic continuing for a long time

Pained suffering physically

Implemented started using

Appealing attractive

Approach way of doing something

Ditch stop using

Pursuit chase of something

Outcomes results

Rank have a position in a list

Abandoning leaving

Shift change

Mindset a way of thinking about something

Worthwhile useful and important



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