CROP

Poverty Brief

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HOW MOVING BEYOND GDP MAY HELP FIGHT POVERTY IN AFRICA

by Lorenzo Fioramonti

SUMMARY

This policy brief argues that the fixation with the use of the index of gross domestic product (GDP) has misled Africa's policy makers. This approach has led to the replacement of informal economic structures with formal market systems, the exploitation of natural resources and the increase in income inequality as signs of economic progress. Alternative indicators are likely to highlight the important contribution of social cohesion and natural welfare to economic development, thus helping to eradicate poverty in the continent.

This Poverty Brief argues:

- GDP is a highly inappropriate measure to gauge progress in Africa and moving beyond GDP will open up creative opportunities to fight poverty and achieve sustainable wellbeing
- GDP does not capture informal economies, the contribution of subsistence farming, non-commercial agriculture and other localized forms of production and consumption
- Through the introduction of new progress indicators that focus on human wellbeing, health and education, decent work and natural welfare, African countries may be encouraged to promote a different development paradigm
- A networked economy, founded on localized forms of self-production and consumption would empower the millions of people that are at the moment left out of the apparent African economic miracle

Introduction

The gross domestic product (GDP) is the world's most powerful statistical measure. Its underlying economic principles have contributed to splitting the planet into two worlds: the 'developed' and the 'developing' countries and/or the North and the South. Paradoxically, the GDP mantra was imposed on poorer nations in spite of its creators' conclusion that its approach should not be applied to countries largely dependent on informal economic structures, as these are not considered by income accounts, which are threatened by policies designed to increase GDP (Fioramonti 2013). The economist Simon Kuznets, one of the architects of the GDP system, is also known for having demonstrated how income inequality rises in times of fast GDP growth. His famous 'curve' shows how relative poverty is exacerbated, especially in under-industrialized countries, leading to a concentration of resources and income in the hands of a few. This brief makes the argument that GDP is a highly inappropriate measure to gauge progress, especially in the so-called developing world. It will therefore focus on Africa to show how moving beyond GDP may open up creative opportunities to fight poverty and achieve sustainable wellbeing.

How the GDP measure is misleading Africa

In May 2013, even the billionaire turned philanthropist Bill Gates, who is a fervent supporter of metric-driven approaches to development, publicly contested the validity of GDP: "I have long believed that GDP understates growth even in rich countries, where its measurement is quite sophisticated, because it is very difficult to compare the value of baskets of goods across different time periods," but this problem is "particularly acute in Sub-Saharan Africa, owing to weak national statistics offices and historical biases that muddy crucial measurements" (Gates 2013). GDP does not capture informal economies, the contribution of subsistence farming, non-commercial agriculture and other localized forms of production and consumption (Jerven 2013). According to estimates published by the IMF in 2002, informal economies accounted for up to 44% of economic output in developing nations, 30% in transition economies, and 16% in the OECD countries (Schneider and Enste 2002), which fall outside the GDP net. Moreover, as an aggregate figure (or as an average, in the case of GDP per capita) it hides unequal distribution of income.

Against this backdrop, it becomes clear that there are important structural reasons why one should be suspicious of the 'Africa rising' mantra. Most fast-growing African economies are heavily dependent on exports of commodities. This means that when commodity prices drop at the global level, African economies languish. More dangerously, it means that the 'growth' we have seen in the past few years is largely the result of a statistical mirage. Most natural resources in Africa are not renewable: once they are taken out of the ground, they do not grow back. GDP does not measure the 'loss' of selling out the most precious resources African countries possess. What would the picture look like if such losses were deducted from GDP? The World Bank in 2013 adjusted net savings statistics, which subtracts natural resources depletion and environmental damage from national income, giving us the following: African countries have been reducing their wealth at the tune of 1.2% a year. Rather than growing, our continent's economies have been shrinking. Sierra Leone has experienced net losses of about 20% of its entire GDP, Angola of 40%, Chad of 50% and the DRC of over 57%. The Bank confirms that "in poorer countries, natural capital is more important than produced capital," thus suggesting that properly managing natural resources should become a fundamental component of development strategies, "particularly since the poorest households in those countries are usually the most dependent on these resources" (World Bank 2006: p. XVI).

The real costs of GDP growth in Africa are the elephant in the room of the world's economic debates. The current GDP paradigm sacrifices nature, which must be commoditized to become productive. It also neglects important components of the real economy, such as the informal sector, because they are not part of the formal market system. Policies that are designed to support GDP growth thus replace the informal (e.g. street vendors, subsistence farming, flea markets, family businesses, household production) with the formal (e.g. shopping malls, commercial farming, large infrastructure). While some can take advantage of this concentration of wealth, many are left behind. The OECD has confirmed the intimate link between rising inequality and GDP growth across the world (OECD 2011). This is further amplified in those countries where the informal economy provides a fundamental safety net to many poor households, as is the case throughout Africa.

Why going 'beyond' GDP may create new opportunities

The GDP model of growth privileges the formal at the expense of the informal, the big at the expense of the small. While complacent politicians, economists and the media celebrate Africa's GDP 'miracle', there is another part of the continent rising. Disillusioned with the limited gains of market society, many Africans are raising their collective voices, whether through service delivery protests (as is the case in South Africa) or through permanent mobilizations (as we have seen in North Africa). This could very well be the beginning of a new era, in which more and more citizens repudiate an economic model that is losing traction also in the West, to explore new forms of human progress. Going beyond GDP in Africa may open a myriad of possibilities to redefine progress in the continent. Through the introduction of new indicators that focus on human wellbeing, health and education, decent work (rather than superficial counting of 'employment') and natural welfare, African countries may be encouraged to promote a different development paradigm.

Various elements of Africa's local cultures, from the widely heralded (and often abused) concept of *Ubuntu* to traditional experiences with cooperative schemes of production and consumption as well as community-driven governance, may provide a fertile ground for localized and decentralized forms of development, in which enhancing human capabilities will overtake nominal income as the key objective of economic progress. Moreover, the abundance of solar energy should make it possible for entire communities to become energy independent through small-scale off-the-grid solutions, thus reinforcing a transition to a citizens-driven development model, rather than an economic paradigm based on exploitation of nature and mass consumption. A networked economy, founded on localized forms of self-production and consumption, in which the distinction between producers and consumers becomes increasingly fuzzier (this is a concept encapsulated in the idea of 'prosumers') would challenge the GDP conceptualizations of production and asset boundary, thus resulting in lower rates of nominal growth. Yet, it would empower the millions of people that are at the moment left out of the apparent African economic miracle. It would for instance allow for alternative forms of governance of natural resources, in which local communities would need to identify the best ways to interact with their ecosystems in a sustainable fashion, rather than resorting to the structural exploitation we have seen throughout the continent in times of state-led or market-driven accelerated growth. It would mean respecting the commons for what they are, rather than subjecting them to marketization and commodification as dictated by the GDP mantra.

Author

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