Harvard Business Review

ECONOMY

GDP Is a Wildly Flawed Measure for the Digital Age

by Barry Libert and Megan Beck

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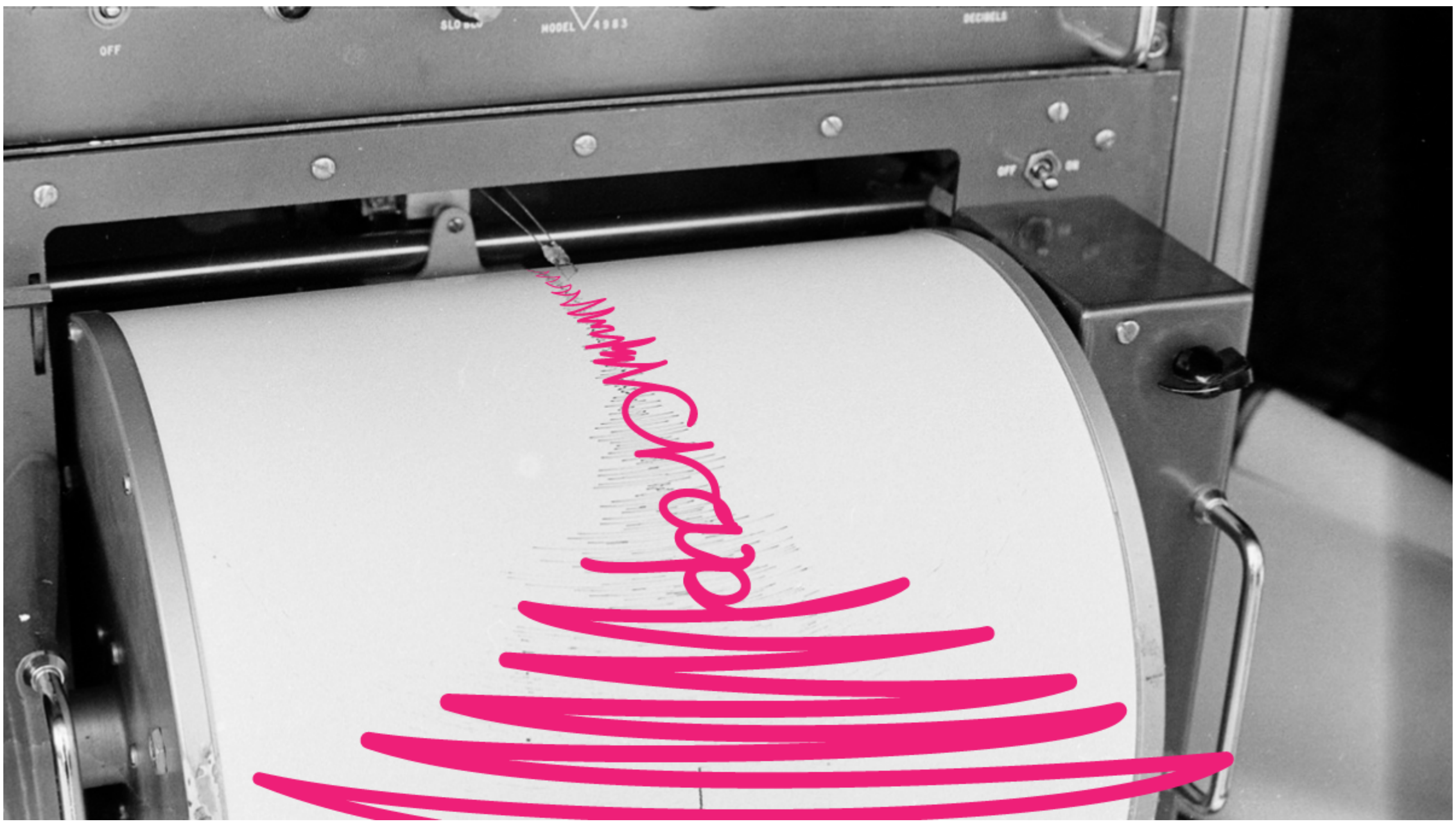

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Germany, Switzerland, and Japan are now in negative interest rate territory. So are Denmark and Sweden. And U.S. treasuries have hit all-time lows. We've also witnessed the populist reactions embodied in the Brexit vote, and at the Republican and Democratic National Conventions in the United States.

One can certainly make the case that we are falling into an abyss. Our education and professional training systems have failed to keep pace. Many workers have found, well into their careers, that their physical skills for making and transporting "things" are less relevant and valuable than the once were. New workers embarking on their careers are finding that their education is incomplete in many areas essential to our technology-driven lives today.

Many argue it's the slowing economy; some would say it's public policy (and lack thereof); others would say it's workers' sentiment and poor job growth. Still others say it's slowing customer demand.

While all of these are contributing factors, the major factor, in our view, is the deflationary effect of technology, which our measurement systems fail to account for. Mismeasuring our prosperity leads to poor decision making and foments populist upset. Will the Republican and Democratic national conventions perpetuate the wrong story about our reality? Will the potential leader of our country use the wrong data - the data that is based on old and outdated science - to tell a misleading story to drive Jingoism, Brexits, and further class, religion, and nationalistic movements?

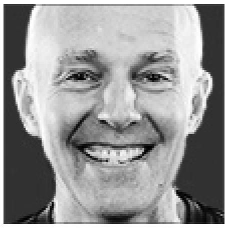
Here's how the mismeasurement works. As the economy has evolved from one age to another (from industrial to services to information to network), our basic measurement systems have not kept pace. Gross Domestic Product (GDP), our core measure of prosperity, was developed during the industrial age. It struggles to account for today's intangible assets—services, insights, and networks. As the market, including customers, employees, and investors, shifts the mix of what is done and what is consumed, this most important and commonly used economic indicator, along with Generally Accepted Accounting Principles (GAAP), tells a concerning story. According to these global measures, we are all headed into negative territory—likely because technology shrinks the goods we purchase, their required inputs, the time it takes to make them, and the place and space required to deliver them.

But when you take a closer look, a customer surplus is emerging. Everyone carries a mobile phone with access to real-time banking, retail, music, and global communications in their pocket. Access to education, even free online options, is growing with announcements that Ivy League colleges are putting some courses online and offering them for free. And many new jobs are arriving to replace the old. In addition, research is emerging that shows that the work we do today is more rewarding, more flexible, and safer than the past. So maybe the problem is that the world is stuck in old ways of measuring and reporting growth based on making and selling *things* (i.e., physical capital), rather than today's growth drivers of developing and creating human, intellectual, and network capital.

It's time to measure all the value that human beings produce around the world: networks of extraordinary value, digital assets of infinite use and reuse, and the new gig employment opportunities that are opening to everyone — including the data and insights that all of this brings to each of our lives. Our research into business models clearly indicates a world where networks and digital assets are more valuable than things and "access" is more convenient than ownership. In the process of creating more efficient, happy, and technologically supported lives, we may have to blow up and recreate how we gauge economic prosperity and growth. Education and access may also need to evolve, to ensure that the benefits of technological innovation aren't limited to an elite. Offering free education from the very best universities is a step in the right direction to reimagining education in a connected world.

As long as we hold onto our old ways of thinking, acting, measuring, and reporting, we will continue to see negative growth and interest rates as well as their accompanying nationalistic responses from leaders around the world.

But that reality does not have to be our reality. It's time for us to ask our leaders for something different - new measurement and reporting systems that reflect today's reality of an interconnected and digitally enabled. It's time to amend our formal measures—Gross Domestic Product, Generally Accepted Accounting Practices, and others—to include our global economy's vast expansion into the realm of services (which are still not properly measured), information, technology, and networks. If we don't, we are doomed to using the wrong measures to allocate our precious human and financial capital and to choosing the wrong leaders who will make the wrong decisions. We can't afford this reality. No one can.



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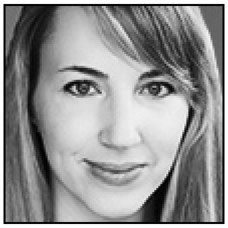

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This article is about ECONOMY

Comments

5 COMMENTS

Carlos Sanchez Axline a year ago

Agree with the author´s thesis in that Technology breakthroughs are deflationary, and hence, improve standards of living by freeing capital to be invested in New Things or endeavours.

However, slightly disagree on the need to measure the newly created intangibles in the economy, since the only real primary economic gain, that of mining and energy, agriculture and forestry is what can be turned or transformed into an economic gain for man which in the end translates into a better standard of living.

Instead, I would recommend focusing on the loss of real wage productivity gains which started when America closed the Gold window with Nixon, as the following chart clearly shows:

https://anticap.files.wordpress.com/2010/11/fig2_prodhhincome.jpg

This is why the US is not growing anymore: it is because all the productivity gains are being lost and stolen.