

## **What the GDP Hides\***

**Prabhat Patnaik**

There are well-known problems associated with the concept of gross domestic product as well as with its measurement. The inclusion of the service sector within GDP is something that Adam Smith would have objected to on the conceptual grounds that those employed in this sector constituted “unproductive workers”; certainly in the former Soviet Union and East European socialist countries, it was not the GDP but the gross material product excluding the service sector that was considered the relevant measure.

Even if the service sector is included in GDP, there is a conceptual problem associated with measuring its output, since what constitutes the rendering of a service is difficult to distinguish from what constitutes mere transfer payment: after all one may derive satisfaction from making a transfer payment exactly as one derives satisfaction from the performance of a musician; how then can we include the one and not the other within the ambit of GDP? But in addition to these conceptual problems, there are also problems associated with the measurement of GDP, problems that arise *inter alia* because of the vast petty production sector for which we do not have reliable, regular and timely data. In India for instance several economists have suggested, though for different reasons, that the measurement of the growth rate of GDP is an over-estimate.

It is also obvious that GDP is no index of national well-being; the most salient reason for this is that the distribution of GDP can be extremely unequal. But the operation of imperialism creates a particular type of dichotomy within a third world country that makes GDP utterly inapposite for measuring economic progress; indeed the GDP serves to camouflage this dichotomy that even has a tendency to grow over time.

Imperialism has two distinct effects on a contemporary third world economy. Because such an economy is typically located in the tropics, industrial countries require from it a range of agricultural products (quite apart from minerals) that only the tropical land-mass is capable of producing, or producing during the period when the cold temperate regions of the world which constitute the home base of capitalism are frozen over. Thus, other than wheat and corn, imperialism requires a whole range of primary commodities from the third world, that it can itself either not produce at all in any season, or that it can produce only in its warm season but not in its winter. These have to be imported; but the extent of the tropical land-mass is limited, and since “land-augmenting” practices such as irrigation, and other technical changes that raise land productivity, typically require an activist State, and capitalism is opposed to all kinds of State activism that supports and promotes not itself but peasant agriculture, such “land-augmentation” is not forthcoming to an adequate degree. The required supplies of tropical products for metropolitan needs, are forced out for exports to the metropolis by reducing their domestic absorption within the third world. Imperialism therefore necessarily imposes an income compression, entailing a demand compression, on the third world.

One of the main functions of the neoliberal regime is to open up the third world to the unrestricted exports of such commodities, and, to attain this, to impose demand

compression as a matter of routine. Such opening up requires that the peasants' choice of which crops to grow must be influenced not by considerations of national food self-sufficiency or of local needs, but exclusively by the "market", which means the pull of the purchasing power of the metropolis. For ensuring this, in southern countries all government price support for food grains in particular, and stocking of food crops for sustaining the public distribution system must go, and the domestic prices must become aligned to international prices through the removal of all quantitative trade restrictions and the imposition of zero or minimal tariffs. This is exactly what the World Trade Organisation seeks to ensure. At the same time very high direct cash subsidies to their own agricultural producers of food grains and cotton continue to be given by industrial countries, labelling these as 'non-trade - distorting'.

If there is insufficient supply of crops that the metropolis wants to import, then inflation ensues, to counter which demand compression measures are imposed as a matter of routine which necessarily restrict domestic demand, and lead to greater supply for the metropolis. The overall effect of the neoliberal regime through all these mechanisms is to reduce the net per capita foodgrain availability in the third world, and to make the land grow crops instead that are demanded by the metropolis. This is exactly what we observe.

There is a second impact of imperialism on third world countries. This arises from the fact that colonial deindustrialisation had left these countries with massive labour reserves which kept the real wages tied to a bare subsistence level, even as the real wages within the metropolis kept increasing more or less in tandem with labour productivity. Because of this widening gap between the wages of the two regions, multinational corporations from the metropolis are now willing to locate plants within the third world for meeting not the local market but the world market. This relocation of activities from the metropolis to the third world, especially of "lower-end" or less skill-intensive activities, is not on a scale to absorb the labour reserves, so that the lower real wages continue, exacerbated by the income compression mentioned earlier; but it does become a source of urban growth, including what in the context of the third world constitutes middle income employment.

These two effects of imperialism create between them a dualistic structure within the third world. Colonialism which had created within the third world "enclaves" where foreign capital operated, had given rise to such a dualistic structure anyway; the post-colonial third world state that had emerged on the basis of an anti-colonial struggle had been committed to overcoming this dualism; but the replacement of the dirigiste regime by neoliberalism has re-created this tendency towards dualism within the third world, with the gap between the two sides widening over time.

To be sure, the gap between the workers in the growing "modern" segment of the third world and their counterparts in the stagnant or declining segment such as peasant agriculture and petty production, does not increase. Both sets of workers are victims as much of the massive and growing labour reserves that keep down the real wage rate, as of the demand compression imposed in order to squeeze out the requirements of the metropolis from the tropical land-mass without generating significant inflation. But the gap between the local big bourgeoisie and upper middle income professionals engaged in the "modern" segment on the one hand, and the working people engaged

in both the modern and the traditional segments, distinctly increases; and this has also a spatial dimension, which expresses itself most clearly in a rural-urban dichotomy.

This growing rural-urban dichotomy is clearly visible in Indian official data themselves. If we take the magnitude of nutritional poverty, defined as access to less than 2100 calories per person per day in urban India and less than 2200 calories in rural India, then the proportion of urban population below this norm increased from 57 per cent in 1993-94 to about 60 per cent in 2017-18; in rural India by contrast this proportion increased from 58 per cent to more than 80 per cent over the same period. (The National Sample Survey data from which these calculations are made by Utsa Patnaik in a forthcoming book have since been withdrawn by the Government of India because of what they show). In fact under the NDA government which has pursued an aggressive, unashamed neoliberal policy, this dichotomy has got greatly widened.

In the face of such a stark and accentuating dichotomy between two segments of the economy, the use of a single hold-all measure like the GDP serves as a camouflaging device. It is not just that growing income inequality makes the GDP an inappropriate measure for economic well-being, a proposition that is readily accepted; but this growing inequality has a spatial dimension, recreating a dualistic economic structure, under the ascendancy of neoliberalism which represents a re-assertion of imperialism. The use of the GDP therefore serves to hide this growing structural dichotomy that imperialism introduces. It serves in short to camouflage the operation of imperialism.

But that is not all. All preliminary estimates of GDP in India are made on the basis of data for the large-scale sector and the growth rate of the large-scale sector is attributed in many instances to the small-scale sector as a “provisional” step. But this implies assuming that the languishing sector is growing as rapidly as its counterpart, which is a travesty of the truth.

\* This article was originally published in the [Peoples Democracy](#) on February 4, 2024.