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Chapter 8

Gross Domestic Product

We know our individual incomes. That's not enough. We also want to understand how our country, or a region within our country, is doing.

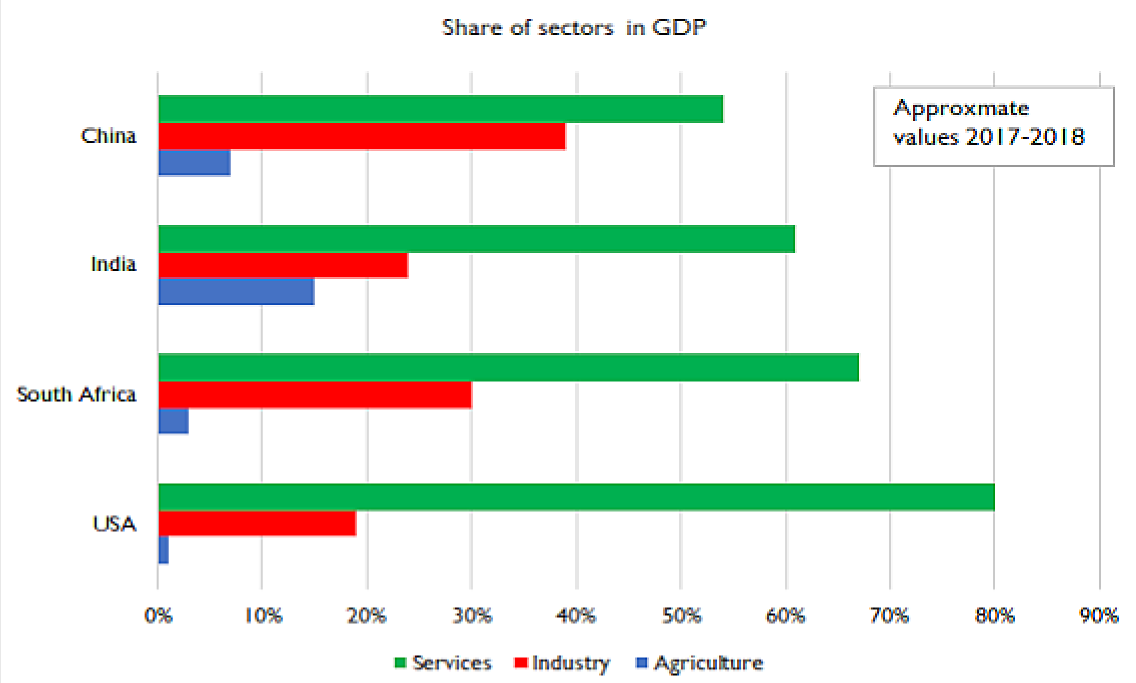
One reason may be that we think that our financial prospects will be brighter if the country is doing well. For example, we saw in Chapter 5 that some professionals left Greece after the 2010 economic problems because they felt that the Greek economy would not do well in the next few years, and that would restrict their job prospects.

There are two related but different objectives in measuring how the economy is doing. One aim is to understand and measure what is happening, i.e.**, to measure the level of economic activity in the economy. The GDP is a well-known measure of the level of economic activity in an economy.** The economic activity leads to incomes or self-production and consumption, which is the usual reason for economic activity.

Another objective is to measure the economy's income level, i.e., **to measure the country's total income.** While a substantial amount of the country's income comes from domestic economic activity, some of it comes from external activities. For example, one of the reasons why countries and civilizations built political empires was to gain income from activities outside the country.

While we don't have political empires anymore, large companies do make profits abroad and send them back home. And migrant workers do send money back to their families. **The World Bank uses the Gross National Income (GNI) as a measure of national income. In brief, the GNI adds the net international** industries and services. The current trend is a decline in industry's share, and a rise in the share of services.

Figure 8.1 Share of sectors in GDP in selected countries



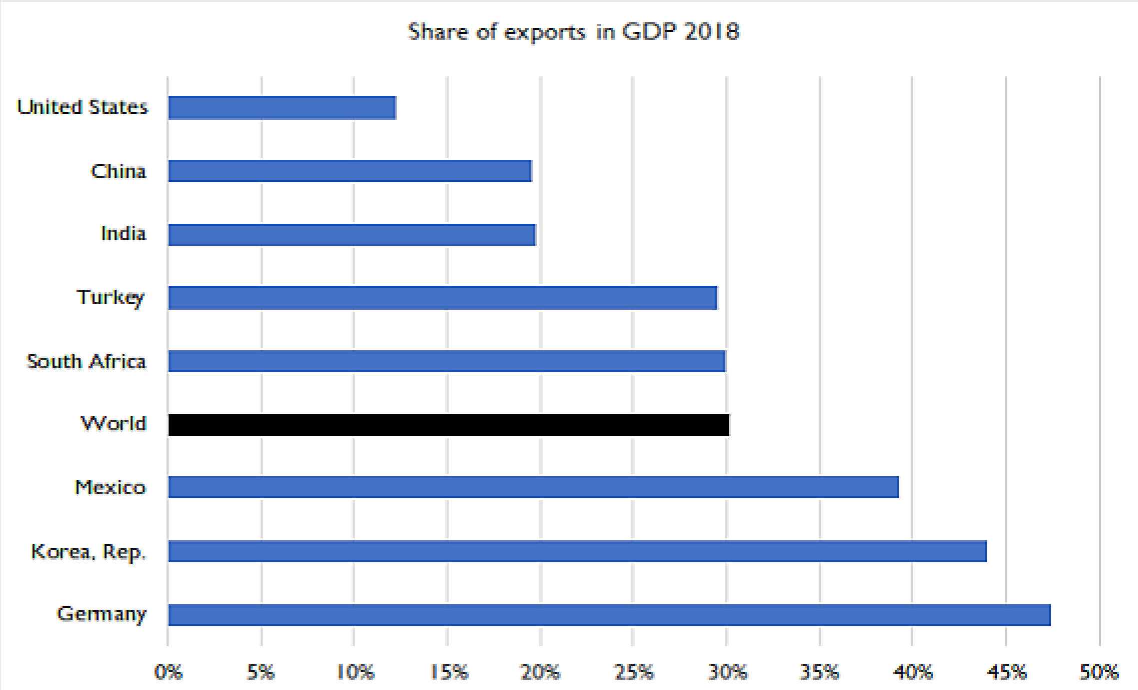
Data source: World Bank

The issue for this century is the extent to which the share of industry will decline over time on a worldwide basis, with an increase in the share of services. And, if the share of services rises, will they be similar services across the world, or will there be significant differences? And, of course, **will this trend, if it materializes, create enough jobs, particularly in what we called in Chapter 6 as low median age countries?** Right now, there are no clear answers that I am aware of, so there seems to be a clear need for further analysis here.

In this group, **agriculture's share in the highest in India**. We saw in Chapter 6 that India has around 40% of its labor force is in agriculture. Here we see that agriculture's share in India's GDP is around 15%. It follows that India's labor force is less productive in agriculture than in manufacturing or services. **So, it's no surprise that India is looking to promote is its industrial sector, specially manufacturing, though with limited success so far.**

In **China, the share of agriculture is higher than in long-industrialized countries like Germany and the US.** And, we saw in Chapter 6 that China still

Figure 8.7 Share of exports in GDP 2018



Data source: World Bank

Then, how did China get a reputation as an economy that is heavily dependent upon exports? You can see the answer in Figure 8.8. Here we see that **in China the share of exports in GDP increased steadily since 1990 but hit its peak in 2005-2007, and has declined since then.**