CURRENCY

THE END OF G.D.P.?

By Katy Lederer,
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Economists have questioned the utility of G.D.P. since its beginnings, so why are we still using it?

The ethicist Dirk Philipsen, the author of the new book "The Little Big Number: How GDP Came to Rule The World and What To Do About It" (Princeton University Press), is not the first to question the utility of G.D.P. estimates, but he may be the most exasperated. His comprehensive history of the measure and its uses, which is written in a prose style that alternates between book-reportese and high Molotov outrage, compares G.D.P. to any number of villains in order to make tangible the number's many flaws. Trying to explain the concept to his student, he describes "a pill-dependent smoker who, on the way to his divorce lawyer, crashes his oversized car into a school bus because he is texting about an impending derivatives trade" (when it comes to G.D.P., virtues and vices are counted alike). Later, he describes a calorie-intake meter that pays no attention to nutrition or weight (quantity trumps quality when it comes to G.D.P.); a C.E.O. who depletes his own company's capital and then calls it a profit (the measure encourages short-term behavior); and a teacher who is teaching to the test (the G.D.P. number can easily be gamed). Philipsen, who trained as a historian and is currently a senior fellow at Duke's Kenan Institute for Ethics, is the author of a previous book about the collapse of Communism in East Germany. He is keyed into how a culture that once burgeoned can implode, and he is anxious about ours. As the quantitative symbol of a growth-based ideology, G.D.P., he argues, poses an existential threat to both the planet and our happiness. It is ubiquitous (a cursory search of the *Times* finds a hundred and ninety-seven mentions in 2015 alone), arbitrary (more than ten thousand streams of data converge in G.D.P.), and inherently absurd (to grow at even a modest rate of two per cent a year, the world economy would have to become *a billion* times more productive than it is now by the turn of the next millennium). So why are we still using it?

The number, it turns out, was a measure of growth that came along when the economy needed to grow. By 1932, three years into The Great Depression, almost ten thousand of the roughly twenty-six thousand banks that existed in the United States in early 1929 had failed. Investment in the American economy had dropped to almost nothing, and the unemployment rate was closing in on twenty-five per cent. The system was in free-fall, but nobody could measure it because the federal government did not keep track of such statistics. Unemployment, income, productivity—all were literally unaccounted for, a state of affairs the economic conservatives of the time preferred, asserting that downturns were simply part of the natural economic cycle, and that the free market would inevitably bring things back into equilibrium. (Sound familiar?) “Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate,” Andrew Mellon, Herbert Hoover’s Treasury Secretary, advised. “It will purge the rottenness out of the system.”

A countervailing movement was afoot, however. The progressive Republican Senator Robert M. La Follette, Jr., of Wisconsin, had been lobbying for years for better economic data, and John Maynard Keynes, whose theories would dominate public economic policy after the war, lamented the “barbaric darkness” of working with bad numbers. In 1932, Resolution 220, which asked the Department of Commerce to generate a report on the national income, was passed, and in the winter of 1934 an unassuming analyst named Simon Kuznets submitted his hundred-and-twenty-six-page findings to

Congress. He called his report "The National Income 1929-32," and he delivered it with a warning that would turn out to be prescient: "The valuable capacity of the human mind to simplify a complex situation in a compact characterization becomes dangerous when not controlled in terms of definitely stated criteria." Kuznets's formula for the figure that would later be known as G.D.P. was indeed deceptively simple: private consumption plus gross investment plus government spending plus exports minus imports—in other words, all the money that is spent in a national economy in a given year. It is what Philipsen calls "a blind meter: it counts only output; it ignores costs and losses."

Despite its inherent flaws, the national income, it became immediately clear, was unusually mediagenic for an economic indicator. "Our Income Fell 40% in Four Years," a *Times* headline read on the heels of the report's release. Roosevelt used it to push through his New Deal, and, a few years after that, what Eisenhower would later call the military-industrial complex employed it to engineer historically unparalleled production for the war. The government contribution to the number that would become G.D.P. ballooned from less than two per cent before the Great Depression to almost fifty per cent by the war's end. (Thereafter, big government would be permanently instantiated in the G.D.P. metric, which it both paid for and produced—a particularly Orwellian turn.) After the creation of the World Bank, International Monetary Fund, and the U.N., which made G.D.P. its implicit measure for membership and comparison (how many times have you heard, as an explanation for Americans' longer working hours and poorer benefits, that, say, Sweden's per capita G.D.P. is lower than ours?), the number became, by bureaucratic fiat, the gold standard. With the collapse of the Soviet Union, in 1991, all major countries became a part of the gross-domestic-product regime, and this, for Philipsen, is when things started to get ugly.

Philipsen's primary criticisms of the metric and its ubiquity fall into two broad categories. The first has to do with what might be called natural capital. As he and many others have pointed out, nature has no value in our economic system until a person comes along to make it a product with a price. In our current energy-generation system, coal, for instance, can contribute disproportionately to G.D.P. relative to more abundant sources of energy, like the sun, not only because the coal itself, while still in the ground, is heavily discounted relative to its real value (once mined, it is gone forever) but also because all the socialized costs associated with coal—the cleanup of toxic soot, the treatment of asthma, and the remediation of the climate change it will ultimately cause—feed a growth-based bottom line. Companies that draw on natural resources are therefore heavily incentivized to externalize as many costs as possible while depleting nature with efficiency and speed. The result, according to Philipsen, is that "by all available estimates, people have used up more resources since the Great Depression than in all of prior human history combined."

The second category of benefit that G.D.P. not only fails to countenance but, according to Philipsen, actively destroys is social capital, which, as part of a gross-domestic-product regime, must be monetized or ultimately devalued. Childcare and housework are not included in G.D.P. calculations, and neither is free leisure or true love. The inexorable logic of G.D.P. growth thus encourages useless and pernicious production. Tap water is bottled in plastic and sold. Free time transmogrifies into binge-surfing Facebook. Planned obsolescence is the norm, even for marriages. "A sobering feature of modern consumer culture is a dating website for already married people," Philipsen writes. "With close to twenty-two million dues-paying members, raking in millions in ad dollars, the owner, Ashley Madison, cashes in on loneliness and despair—all a boost to G.D.P." (And this isn't even counting what last month's dumping of the site's user data and the resulting divorces might eventually contribute to the nation's G.D.P.)

So what is the alternative? According to Philipsen, more than a hundred standards have been proposed, from across the political spectrum, as alternatives to G.D.P., but the number's long incumbency and bureaucratic power have made it difficult to dislodge. Some of the new measures, like the self-explanatory Happy Planet Index (H.P.I.), you might have heard about. Others, like the Genuine Progress Indicator (G.P.I.), which incorporates social and environmental variables into the equation, are actually in sporadic use (the G.P.I. has been employed in Maryland, Vermont, Alberta, and Finland). In the U.S., a group has been developing a "dashboard" index called State of the U.S.A. It retains the inputs of traditional G.D.P., but adds other metrics (it also happens to sound like the name of a Bruce Springsteen song). In Europe, a high-profile multi-year initiative called Beyond G.D.P. has been examining alternatives since 2007. There are, in other words, plenty of counter-proposals, and yet here we remain, still awaiting monthly estimates from the Bureau of Economic Analysis—sometimes revised up, other times revised down (and always affecting the markets in real terms)—as if they were announcements of an overdue lottery prize.

When the world stock market crashes, as it did late last month, and trillions of dollars disappear in a single day only to magically reappear a few days later, we are reminded that the economic system that we live in is fictitious. This is, ultimately, what makes economic crashes both so incredibly dangerous and so thrilling—they show us, if only for a moment, that another world is possible. Perhaps we are still using G.D.P., a number that was born from the great crisis of its time, because the collapse that Philipsen and others can see on the horizon has not yet come to show us what the measure of our time should be.

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