Book Review: GDP: A Brief but Affectionate History by Diane Coyle

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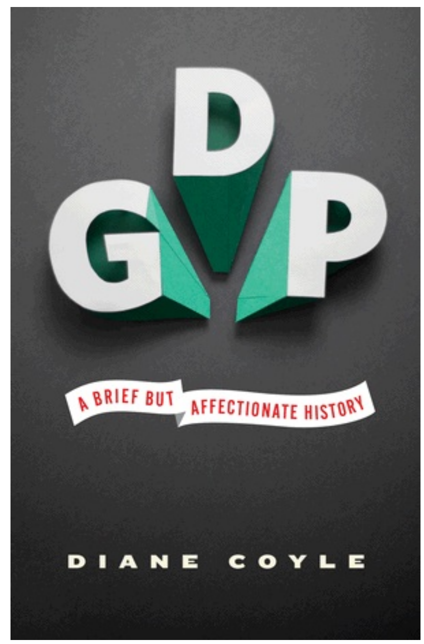
Why did the size of the U.S. economy increase by 3 per cent on one day in mid-2013–or Ghana's balloon by 60 per cent overnight in 2010? Why did the U.K. financial industry show its fastest expansion ever at the end of 2008–just as the world's financial system went into meltdown? The answers to all these questions lie in the way we define and measure national economies around the world: Gross Domestic Product. With this ***Brief but Affectionate History, Diane Coyle*** *aims to tell the story of GDP, making sense of a statistic that appears constantly in the news, business, and politics, and that seems to rule our lives–but that hardly anyone actually understands.* ***Eilís Lawlor*** *finds that the strongest part of the book charts the development of national accounting from the 17th century through to the creation of GDP itself and its literal and metaphorical rises and falls in the 20th and 21st centuries.*

GDP: A Brief but Affectionate History. Diane Coyle. Princeton University Press. January 2014.



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One of the most embarrassing statements by any premier in recent years – with the exception of much said by Silvio Berlusconi – was the Irish Prime Minister Bertie Ahern's explanation in 2006 of rising inflation: "the boom times are getting even boomier". Ahern's attitude, and the context that produced it, capture well a number of articles of faith about the GDP statistic: that more is always better, a high rate was always to be celebrated, and whatever else happens it must not slip into negative. His party's re-election in 2007 and decimation in 2011 seemed to confirm these views.

The failure of GDP to provide any indication of the looming financial crisis is symptomatic of its greatest weakness: its inability to measure the *quality* as well as the quantity of economic growth. It is in response to this critique that Diane Coyle has written a "brief but affectionate" history of GDP. Coyle's sympathies with GDP are confirmed in the introduction, where she describes it as "an important measure of the freedom and human capability created by the capitalist market economy" (p.5). As well as telling the story of GDP, she aims to rescue its reputation, at least in part, from its detractors.

The strongest part of the book charts the development of national accounting from the 17th century through to the creation of GDP itself and its literal and metaphorical rises and falls in the 20th and 21st centuries. Primarily an Anglo-American phenomenon, the history of national accounting is intertwined with military history. It was originally developed to measure the ability to finance wars, as its pioneers believed that doing so gave them a wartime advantage. Later, it would be used to defend a whole host of policies from Roosevelt's Recovery Programme, to Keynesian economic management, to the continuation of the Cold War, to financial deregulation. This is lively and surprisingly readable stuff.

Consistent with a defense, Coyle devotes more space to positives than negatives but this weakens her overall argument because she does not deal well with some major critiques. First, her account of the technical problems with measuring GDP is thorough in parts but with major omissions. She discusses the distinction between productive and unproductive goods at length without mentioning externalities. Where they are mentioned, they are largely of the positive variety. For example, she devotes over 20 pages to the undervaluing of innovation but only 7 to environmental concerns. This reflects her view of economic growth, which she sees as a solution, rather than a cause of climate change. Second, Coyle gives short shrift to the “happiness” debate (the terms always appears in inverted commas). She makes the unreferenced claim that a number of recent studies show that “happiness is strongly positively linked with the change or growth in GDP per capita”. This is indeed a busy area of research but for every paper finding a relationship the next does not. What is broadly accepted is that growth correlates with income (personal and national) up to a point, beyond which the relationship weakens and that this varies depending on types of measures used. Coyle considers it “ironic” that advocates of alternatives to GDP argue for income and poverty measures in developing countries. This is a straw man: increasing national income is subject to diminishing marginal utility. This means that small increases in income are more valuable to the least well off and growth is therefore more beneficial in countries with low per capita GDP. She also a bit inconsistent here, insisting that GDP is not a measure of welfare but then defending it as such. Choice and variety are described as inherently positive, ignoring the fact that whilst the market economy allows me to buy a customized laptop it also allows more sophisticated payday lenders to sell me an extortionate loan to pay for it.

As the book shows, what is included in national income has always depended on the intellectual climate and political and military needs of the time. Likewise, the arguments in favour of GDP are often political, yet she maintains that its construction is a technical, non-normative exercise. For example, there is little discussion of competing perceptions of value, or the distribution of the costs and benefits of economic activity. She rightly points out that the productivity of the financial sector is overvalued, but even if this was corrected, it doesn’t deal with the fact that the costs of the crisis (she estimates between 1 and 5 times global GDP) have been unfairly distributed.

In many ways this is a defence of growth, rather than GDP. Like other advocates and critics, Coyle sometimes conflates the *measurement* of output with growth itself and the economic policies that produce or limit it. For example, as she charts the economic history of the developed world from the Golden Age to the Great Recession, she repeatedly defends GDP as not being ‘responsible’ for poor economic performance. Surely blaming the GDP measure for the economic problems of these periods would risk shooting the messenger. GDP can (and does) crowd out other considerations but this is not the point she is making. Elsewhere, Coyle suggests that most economists, including herself, regard economic liberalization as a success even though a “stubborn number of poor countries were unable to participate in the international flows of finance and trade because of their internal conflicts or dire political leadership” (p.94). Whatever problems one might have with this statement, it is difficult to see what it has to do with GDP.

If it is just a measure of the size of the economy, why has GDP taken on such totemic importance? If not a measure of welfare why do we not have one? If we did have such a measure would it always be trumped by short-term economic concerns? These issues are not discussed presumably in the interests of brevity. Whilst the history of GDP may be less than a century old, the arguments for and against are extensive and may, in the end, be too complex for such introductory treatment.

Eilís Lawlor is doctoral student at the University of Sussex. Her research focuses on social value and national measures of welfare with an emphasis on the Irish economic crisis. She is also a director of the research company Just Economics. Prior to that she headed a public policy and measurement team at the think tank the New Economics Foundation. She holds degrees in literature, politics and social science from Trinity College Dublin, Dublin City University and the University of Sussex respectively. Read more reviews by Eilís.