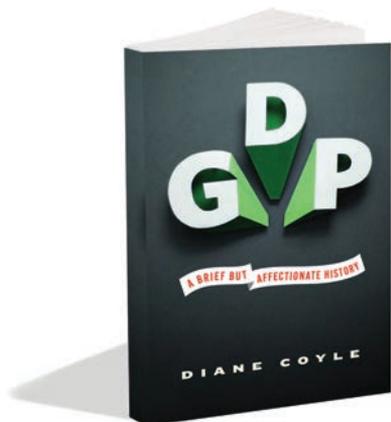


The Price of Everything and the Value of Nothing



Diane Coyle

GDP

A Brief but Affectionate History

Princeton University Press, Princeton, New Jersey, 2014, 168 pp, \$19.95 (cloth).

Why didn't a smart guy like Aristotle come up with the concept of gross domestic product (GDP) 2,000 years ago, since the word "economy" derives from the Greek word for household, *oikos*? It was because Aristotle focused on things that moved, like moons and planets.

For about 50,000 years human GDP did not budge. In Aristotle's time there was no CNBC to shake the markets by announcing GDP gyrations. And nobody expected to live better than his parents. Of course, people cared about money and debt. In the 1500s, Henry VIII asked his treasurers to keep an eye on the tab he ran up at the pub and during the wars with France, but it would not have occurred to Henry to ask whether per capita GDP had climbed over the past year.

Diane Coyle's smart and lucid new book, *GDP: A Brief but Affectionate History*, tells the story of this twentieth century numerical creation, which every three months threatens to topple prime ministers. Coyle begins by reminding us of the stakes, not in ancient Greece but modern Athens, where the head of that country's statistical agency calls his job "a combat sport." She shares the story of her economist friend Paola Subacchi of Chatham

House, who visited the Greek agency expecting to see supercomputers, or at least an abacus. Instead, she walked up the stairs of a 1950s residential building to find "a dusty room with a handful of people" and no computers.

But national statistical agencies must come up with something, and often finagle data in their quest to sell bonds and wheedle others to provide aid. Coyle suggests that Chinese officials sometimes boast of their powerful GDP, while other times diminish GDP to qualify for handouts. After the Soviet Union collapsed, I visited St. Petersburg, Russia. My old economics textbooks suggested that the USSR had enjoyed strong growth under communism. Even a Nobel laureate like Paul Samuelson published such dubious numbers. Yet all I had to do was sniff the acrid air inside the decaying Hermitage museum to realize: the problem with communism was not that it couldn't keep up with the West; the problem was that it couldn't keep up with the standards of 1917!

Coyle performs an important task by reminding us that the very calculation of GDP ($C + I + G + [X - M]$ or consumption plus investment plus government spending plus net exports) gives government leaders an incentive to spend more money. Why? Because stronger government spending tautologically increases that sum. All a leader must do is turn on the spending spigot, and he can count on his bean-counters to add more to GDP. Moreover, the value of government spending is calculated based on the salaries of government workers, not the value of their output. One of my Harvard students once suggested that, given this tautology, leaders who are willing to consider occasional budgetary austerity deserve special ribbons.

Coyle also does a fine job picking apart other problems with GDP, including such paradoxes as the widower who marries his housekeeper and thereby lowers GDP because he doesn't pay her wages anymore. It's especially hard to properly value services in the information economy. In a

current, real-life example, I've devised a new matrix of numbers to help kids learn arithmetic. When children learn addition through this matrix called the Math Arrow, they increase their earning potential by, let's say, a hundred thousand dollars. Yet the app costs just \$4.99. Is each download of this matrix creating a hundred thousand dollars of value, or just a few?

After dissecting the problems with GDP, Coyle asks whether we can do better and runs through the list of competitors, including the Human Development Index (HDI), Measure of Economic Welfare (MEW), and assorted happiness indices. She is right to be skeptical, especially of those dispensed by happiness gurus and demagogues. Hugo Chavez called GDP a "capitalist conspiracy." But alternatives are even more easily twisted like taffy. In 2009, the Happy Planet Index, for example, ranked Costa Rica highest among nations, with Cuba not far behind at number 7. It also found that people living under the Palestinian Authority are happier and healthier than Israelis. If a pro-Zionist spokesman argued that Palestinians were better off, he'd be laughed at or stoned. Oh, the United States showed up 114th on the list. Funny, I've never seen a raft leaving Miami for Cuba. So Coyle is correct both to dissect GDP's flaws and to raise warning flags over its threatened demise.

I found only one omission in her otherwise short but masterful tract. When I wonder about a country's standard of living, I often ask this simple question: How many hours does a typical worker have to work in order to buy a chicken? In the 1920s, President Herbert Hoover's campaign promised "a chicken in every pot." In those days, it took about two and one-half hours to earn a chicken. Today, it takes less than 15 minutes. Sounds like progress to me. Unless, of course, you're poultry.

Todd G. Buchholz

former White House director of economic policy, author of *New Ideas from Dead Economists*, and CEO of *Sproglit, LLC*, an educational software firm