The World's Most Powerful Number: An assessment of 80 years of GDP ideology

Lorenzo Fioramonti

Author of "The Gross Domestic Problem: The Politics Behind the World's Most Powerful Number" (Zed Books, 2013)

The power of GDP

The world's most powerful number, the gross domestic product (GDP), was invented exactly 80 years ago.[1] It was indeed in 1934 that a young economist by the name of Simon Kuznets (who would later on receive a Nobel Prize for this) presented his first report on the design of national income accounts to the US congress.[2] Those were the hard times of the Great Depression and governments were desperately seeking some type of indicator to gauge if and how the economy was recovering. GDP did exactly that: it conflated the amount of spending for goods and services into one single number, which would go up in good times and down in bad times. A few years later, the Second World War, with its massive need for a top-down command over economic activities, sealed the close relationship between GDP and politics. Indeed, the availability of regular and detailed statistics on the strengths and weaknesses of the economy helped the American government outpace its enemies in terms of munitions' production. More importantly, it allowed for the conversion of the civilian economy into a war machine without hampering internal consumption, which turned out to be a major advantage in generating revenues for the war (thus avoiding bottlenecks such as those experienced by Hitler's war economy) and propelling large-scale consumption in the post-war period.

But GDP was not just a number; it was also a powerful propaganda tool. So, in the second half of the 20th century, the measurement of economic performance became an important component of the bipolar rivalry between the US and the Soviet Union. As the latter produced a different set of statistics, which were only based on industrial output (the so-called material product), the two competing

[1] For a full account of the history and politics of GDP see L. Fioramonti (2013) *Gross Domestic Problem: The Politics Behind the World's Most Powerful Number* (London: Zed Books).

[2] S. Kuznets (1934) 'National Income, 1929–1932', Report presented to the 73rd US Congress, 2d session, Senate document no. 124, page 7. Reprinted as "National Income, 1929 – 1932, NBER Bulletin 49, June 7 1934.

numbers needed to be dissected, re-interpreted and adjusted in order to show which economic model was more successful. This led to a proxy war involving secret services and economic experts, with Soviet statisticians trying to surpass GDP calculations and their US counterparts discrediting estimates of the material product: a 'stats war' that only ended with the fall of communism. Ever since, the GDP mantra has dominated public debate and the media. Countries have been ranked according to GDP, the global definition of 'power' has been based on GDP (e.g. superpowers, emerging powers, etc.), access to global governance institutions has been granted on GDP performance (e.g. the G8 or G20 members are selected according to their GDP) and development policies have been driven by the GDP formula.

In spite of its apparent neutrality, GDP has come to represent a model of society, thereby influencing not only economic, but also political and cultural processes. GDP drives macro-economic governmental policies and sets priorities in the social fields. For instance, according to the Stability and Growth Pact of the European Union, member states are constitutionally obliged to respect fixed ratios between GDP and public deficit/sovereign debt. This agreement has tied the hands of democratically elected governments resulting in a straightforward albeit macabre equation: less GDP, less social investment. And in the age of economic stagnation, this has meant austerity and social tensions throughout Europe.

Moral principles such as equity and redistribution have been routinely subjected to GDP calculations. For instance, the so-called Bush tax cuts, the largest in the recent history of America, were amply justified by the need to foster GDP growth, while efforts to secure increases in the federal living wage have been thwarted by persistent gloom and doom forecasts with respect to overall GDP performance.[3]

GDP also possesses a specific anthropological dimension. The GDP 'man' only exists in so far as he works and spends. He hates pure leisure, unless it is priced and commoditized. For the GDP man, time spent in the family or in the local community is wasted. The GDP man buys new stuff and hates

[3] T. Foertsch (2006) 'A Victory for Taxpayers and the Economy,' *Heritage Foundation,* WebMemo#1082.

fixing/repairing old things, as whatever is used does not count for GDP. Our physical and infrastructural geography, from the shape of cities and their relation with the countryside to the management of parks and natural resources, is dominated by the type of industrial model supported by GDP. The GDP consumption anthropology has also been triumphant in political discourse. In no circumstance was this as evident as in the first reactions of world leaders and opinion makers to the terrorist attacks of the 11th of September 2001. Famously, US President George W. Bush urged Americans to "get on the airlines, get about the business of America" and his British counterpart, Tony Blair, encouraged his compatriots "to travel and to shop" in order to get the economy back on its feet.[4] Similarly, the then Prime Minister of Canada, Jean Chrétien maintained that the best way to defeat terrorism was through sustained consumption: "it is time to go out and get a mortgage, to buy a home, to buy a car. [...] The economy of the world needs people to go back to their lives. [...] It is the way to fight back."[5] In a radio interview ten days after the attacks, New York's mayor Rudy Giuliani put it quite clearly: "There is a way that everybody can help us, New Yorkers and everybody all over the country. Come here and spend money […] And go shopping, we're the best shoppers in the world."[6] Republicans and democrats, conservatives and progressives, parliamentarians and local administrators were all united by the same creed. Thousands of letters flooded American newspapers with encouragements for people to go back to their usual consumption habits. "The patriotic thing to do is: hold your stocks and buy more; get on an airplane and get on with doing business; start shopping again,"' said a letter to *The Miami Herald* the week after the attacks. "America, you love to shop, so get going."[7]

Being presented as an essential tool for the design of public policies, the invention of GDP afforded unprecedented power to technocrats. With this almighty number steering us towards progress, our political economy ceased to be a political struggle over 'who gets what' to become a technocratic

[4] Speech given by G.W. Bush to airline employees at O'Hare International Airport (Chicago, Illinois) on 27 September 2001. Available online: http://georgewbush-whitehouse.archives.gov/news/releases/2001/09/20010927-1.html (accessed on 20 January 2014); 'Britain needs you to Shop, says Blair,' *The Telegraph*, 28 September 2001.
[5] 'Shopping is Patriotic, Leaders Say,' *The National Post*, 28 September 2001.
[6] 'America's New War: Giuliani on Local Radio Show', 21 September 2001, transcripts provided by CNN.com at http://transcripts.cnn.com/TRANSCRIPTS/0109/21/se.20.html (accessed on 20 January 2014).
[7] 'Shopping is patriotic,' cit.

recipe for the responsible management of the business cycle. With GDP growth, everybody could finally win. All that people needed to want was another bump in GDP. Jobs, income, wellbeing and happiness would then automatically follow. Individuals, both in the industrialized West and in the developing 'rest', were disempowered as citizens and glorified as consumers.

The gross domestic 'problem'

Over the course of its life, GDP has shaped our understanding of value. The very concept of economic growth, a fundamental goal of government policies around the world, is determined by GDP. Growth *per se* does not exist: it is growth in GDP terms. Through the GDP ideology, what we strive to achieve is not an elusive idea of wellbeing, but rather an increase in the production of those goods and services incorporated into the GDP accounts.

But, GDP is not a measure of *all* gains and losses in an economy. It is a 'gross' indicator. Not only because it does not include the depreciation of assets utilized in the production process, but also because it disregards the value of the natural resources consumed in the process of economic growth, as these are obtained free of charge from nature. Moreover, it does not even consider the economic costs of pollution and environmental degradation, which are obvious consequences of industrial development. Finally, whatever good or service is exchanged outside the market (e.g. within households, in the informal economies, through barter, etc.) does not count for GDP.

All these important omissions make this statistic a very inadequate measure of economic performance, let alone social welfare. Household services, for instance, have a fundamental economic impact even though they are not formally priced. If governments had to pay for the innumerable services rendered at the household level (from child and frail care to education), our economies would arguably grind to halt. A study by the Bureau of Economic Analysis estimates that the value of household production in the US accounted for over 30% of economic output every year from 1965 to 2010 with a peak of 39%

in 1965, declining to 25.7% in 2010.[8] In many countries, the 'odd jobs' and the goods and services exchanged informally provide the necessary subsistence to millions of people and often constitute the backbone of the real economy, albeit they do not feature in GDP. As reported by the IMF, the informal economy has reached remarkable levels worldwide: in the early 2000s, it accounted for up to 44% of economic ouput in developing nations, 30% in transition economies, and 16% in the OECD countries.[9]

Similarly, disregarding the input of natural resources just because they are not priced by nature makes us forget that economic growth is only possible because of a continuous provision of 'capital' from our ecosystems. Agricultural production would not be attainable without clean soil, water, air and other essential ecosystem services. Industrialization would have not been achieved without the fossil fuels, hydrocarbons and energy sources made available by the planet. When these resources are depleted, however, we risk endangering not only economic progress, but also the very natural equilibrium that makes life possible.

Many defend GDP's alleged simple methodology. As a matter of fact, the calculation of GDP is by no means straightforward and uncontroversial. For starter, each national statistical agency uses different formulas and corrective methods to correct for inflation (the so-called GDP deflators). As technological innovation tends to reduce prices (e.g. a laptop today is much cheaper than it was a few years back, even though its performance is much higher), hedonic models have been introduced to account for quality improvements, thus manipulating the pricing principle underpinning the calculation of GDP. The valuation of government expenses is also controversial. In Cuba, for instance, the national statistical office has been correcting the overall contribution of key social services (from education to healthcare) by estimating their impact on social welfare rather than through a calculation of the actual salaries and costs of personnel, as is generally the case.[10] Cubans are indeed concerned that the comparatively low salaries of doctors and teachers, among others, would penalize their GDP

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[8] B. Bridgman et al. (2012) 'Accounting for Household Production in the National Accounts, 1965 – 2010,' *Survey of Current Business*, 92 (5): 23-36.
[9] F. Schneider and D. Enste (2002) 'Hiding in the Shadows: the Growth of the Underground Economy,' *Economic Issues 30* (Brussels: International Monetary Fund)
[10] See *EcuRed, Conocimiento con Todos y Para Todos*: http://www.ecured.cu/index.php/Producto_Interno_Bruto_en_Cuba (accessed 20 January 2014).

and distort the actual impact these services have on economic performance. Indeed, looking simply at the size of expenditures (as conventional GDP methodologies do) rewards countries like the US, which have notoriously expensive yet inefficient healthcare sectors.

International comparative calculations, too, are marred by inconsistencies. For instance, a country like Liberia would be considered Africa's second-poorest, seventh-poorest or 22nd-poorest depending on whether one takes the international calculations published by the World Bank (through the World Development Indicators), the Penn World Table or the Maddison Project Database, which provide the data used by most development agencies to design their policies: "Angola, Central African Republic, Comoros, Congo-Brazzaville, Nigeria and Zambia all make leaps of more than ten places in the rankings from one source to the other."[11] When Ghana changed its base-year methodology for the calculation of GDP in 2010, all of a sudden it went from being a poor country to a middle-income nation. As declared by a blog post on the website of the Centre for Global Development, "Ghana says, hey, guess what? We are not poor anymore."[12]

Even the OECD recognizes that "if ever there was a controversial icon from the statistics world, GDP is it. It measures income, but not equality, it measures growth, but not destruction, and it ignores values like social cohesion and the environment. Yet, governments, businesses and probably most people swear by it."[13] Accounting 101 tells us that profit equals income minus 'all' costs. As GDP systematically disregards key sectors in the economy and neglects critical costs, no reasonable businessman would use it to run a company. Yet, it has become the key parameter to run entire societies.

GDP is the 'lens' through which policy makers, the media and often society as a whole see the human economy: what is not counted by GDP becomes valueless to public policies and social debate. No

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[11] M. Jerven (2013) *Poor Numbers: How We Are Misled by Africa's Development Statistics and What to Do about It* (Ithaca, NY: Cornell Nniversity Press), p. 19.
[12] Cited by Jerven (2013) *Poor Numbers*, p. 26.
[13] See: http://www.oecdobserver.org/news/archivestory.php/aid/1518/Is_GDP_a_satisfactory_measure_of_growth_.html (accessed on 20 January 2014).

surprise then that the GDP era has been characterized by a relentless privatization of public spaces, commodification of the household (including the ever-decreasing time family members enjoy 'together') and destruction of natural beauty. Indeed, personal, social and natural assets must be 'owned' and made 'productive' to be counted by our metric of progress.

The Frankenstein syndrome

Since the early days of the GDP accounts, Kuznets himself had raised doubts about his 'creature.' For instance, he had warned about the risk of using a 'gross' measurement to design policies. He recommended that not only the depreciation of machinery and capital be subtracted from GDP, but also the "wearing out of people." Indeed, the system of production takes its toll not only on "things" but also on "human beings." This is what Kuznets called the "reverse side of income," that is, "the intensity and unpleasantness of effort going into the earning of income."[14] Yet, as GDP focuses only on satisfying consumers' demands for commodities and services, he admitted that "the burden of work and discomfort are ignored."[15] Kuznets also acknowledged that GDP focuses exclusively on formalized economic transactions, which make it unsuitable to countries largely dependent on informal economic structures.[16] In industrialized countries, by contrast, growth of GDP might be easily over-estimated by counting in goods and services whose sole purpose was to offset the drawbacks of industrialization, such as the increasing cost of traffic, pollution and security.

Kuznets was also worried about the way in which GDP growth affected the distribution of income. His famous 'curve' showed how rapid growth is usually associated with rising inequality, which is partly due to the fact that policies aimed at supporting GDP tend to destroy informal economic structure to replace them with formal (often market-based) systems of production. In the process, many people – especially the most marginalized – lose out. He also raised doubts about the reliability of the accounts, for which data was often missing, and took great pains to single out the disparate sources of error in

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14 Quoted in 'Special Report: U.S. Data Dogs on Quest for Sexier Statistics,' *Reuters*, 6 July 2010.
15 S. Kuznets (1946) *National Income – A Summary of Findings* (New York: National Bureau of Economic Research), p. 127.
16 E. Lundberg (1971) 'Simon Kuznets' Contribution to Economics,' *Swedish Journal of Economics*, 73 (4): 444-459.

international comparisons, including the use of prices. Finally, he pleaded with policy makers to always distinguish between the mere "quantity" of economic growth and its actual "quality" in order to clarify what type of growth they want to achieve and "for what."[17]

Over the past few years, progressive economists, ecologically minded think tanks and NGOs have been criticizing GDP with a view to 'taming the monster' and its influence on policy making. A myriad of alternative indicators have been produced in an effort to dethrone this 'almighty number' and produce more reliable measures of societal wellbeing. Indicators comparing economic performance and environmental resources have also been available for quite some time, inspired by theories of 'genuine progress,' stressing the need to account for the human and environmental costs of economic growth. National initiatives have also abounded, taking the cue from the special commission set up by former French President Nicholas Sarkozy and chaired by Nobel laureates Joseph Stiglitz and Amartya Sen. Besides recommending new indicators, the commission emphasized that "what we measure affects what we do; and if our measurements are flawed, decisions may be distorted." [18] In the UK, Canada, the US and Germany, special task forces were established to reform the national accounts. In 2012, the UN Secretary General Ban Ki-Moon acknowledged that GDP "has long been the yardstick by which economies and politicians have been measured. Yet it fails to take into account the social and environmental costs of so-called progress."[19] Finally, in January 2014, the magazine *Nature* published a global appeal to "leave GDP behind" signed by leading economists, policy makers and intellectuals.[20]

The quest to replace GDP has not been without its ambivalences. In 1994, an attempt made by the US administration to deduct some environmental costs from GDP was ditched by the coal industry.[21] In the mid-2000s, the Chinese government piloted a green GDP project, which was eventually quelled by

17 S. Kuznets (1962) 'How to Judge Quality,' *The New Republic*, 20 October 1962, p. 29.
18 J.E. Stiglitz, A. Sen and J.P. Fitoussi (2009) *Report by the Commission on the Measurement of Economic Performance and Progress*, p.9.
19 'Ban: new economic paradigm needed, including social and environmental progress,' *UN News Centre*, 2 April 2012.
20 R. Costanza et al. (2014) 'Development: Time to Leave GDP Behind,' *Nature*, 505: 283-285.
21 Bureau of Economic Analysis (1994) 'Integrated Economic and Environmental Satellite Accounts,' *Survey of Current Business*, 74 (4): 33-49.

the country's leaders as it revealed that environmental damage had cost China 8 to 15% of its annual economic growth and that the country had lost "almost everything it has gained since the late 1970s due to pollution."[22] To assuage political leadership, the Chinese Academy of Sciences, a government think tank, published a GDP 'quality' index to allegedly demonstrate an increase in "true wealth, sustainable development and social harmony."[23] Yet, in 2012, support for a green GDP resurfaced, as the costs of environmental clean-up spiralled out of control, while official GDP growth began to slow down.[24] In November 2007, the EU hosted a high-level conference titled 'Beyond GDP' and, two years later, the Commission released a communication on 'GDP and Beyond: Measuring progress in a changing world', where it argued that GDP has been unduly "regarded as a proxy indicator for overall societal development and progress in general."[25] Yet, the 2012 Fiscal Compact reinforced the GDP ratios to debt and deficit for all EU members. Even the kingdom of Bhutan, which introduced the concept of gross national happiness back in the 1970s and has been measuring it since 2008, still uses GDP as its main economic indicator to attract foreign direct investment.[26]

Since the Rio +20 summit in June 2012, several investment banks, big corporations and international institutions have been sponsoring the integration of natural capital accounting in the calculation of GDP. On the one hand, this may help us realize the environmental costs of our model of growth. At the same time, some point out that putting a 'price' on ecosystems and natural assets is not only impossible but also dangerous, as this may ultimately lead to the marketization and financialization of nature.[27]

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22 'The Man Making China Green,' *The New Statesman*, December 2006-January 2007, pp. 60-61

23 'GDP Growth More Quality Oriented,' *China Daily*, 27 July 2012.

24 'China's Green GDP Resurfaces,' *Radio Free Asia*, 13 February 2012. Available online: http://www.rfa.org/english/commentaries/energy_watch/greengdp-02132012120520.html (accessed on 20 January 2014).

25 European Commission (2009) *GDP and beyond: measuring progress in a changing world*, COM/2009/0433 final.

26 National Statistics Bureau (2012) 'Bhutan at a Glance,' October 2012.

27 L. Fioramonti (2014) *How Numbers Rule the World: The Use and Abuse of Statistics in Global Politics* (London: Zed Books).

The way forward

GDP is built on a great lie. This lies says that what is not priced, what does not involve a formal financial transaction based on money, does not count. No matter how important it may be for our social and economic wellbeing. Price tags are the ultimate symbol of GDP. Continuous production and endless consumption are its underlying values. Durability, reusability and self-production are its worst enemies. In this paradigm, households are reduced to cages of consumers. Nature, the ultimate provider of all richness, is enslaved and devalued.

There is no doubt that the invention of GDP has given economics a primary role in society and politics. Conformity among mainstream economists has been pervasive. In 1941, Kuznets admitted that the measurement of national income should not be regarded as a morally neutral process, because it is continuously “affected by implicit or explicit value judgments.” Looking at the enthusiasm with which his creation was being welcomed by colleagues, he observed that

> the apparent relative unanimity produced by empirical writings on national income is due largely to the estimators’ unconscious acceptance of one social philosophy and their natural reluctance to face such fundamental issues as would reveal that estimates are conditioned by controversial criteria.[28]

The invention of GDP did not only mark the era in which economics (and economists) became an all-powerful force in society. It also ushered in a new age of market supremacy. As economic growth became the most important goal of politics, the ‘producers’ of growth felt their reign of uncontested leadership had finally arrived. As GDP masked the negative externalities of industrial production, all industries (especially the heavy polluters) became champions of progress. Thanks to this statistical Laundromat, their ‘bads’ magically disappeared, as society could only see the money being ‘generated.’

28 Kuznets, S. (1941) *National Income and Its Composition (1919-1938), Volume I* (New York: NBER), p. 5.

Labour unions, too, have fallen into the GDP trap. In order to preserve jobs, they have made historic concessions to both business and government. In the West, this has meant further deregulation and less stringent laws for corporations. In the East, it has resulted in a blank cheque for state-controlled industries. In many instances, unabated devotion to GDP-led employment policies has turned labour unions into 'socially conservative' agents, separating them from more progressive groups within civil society. A wedge has been driven especially with the ecological movement, in so far as stricter environmental regulations to slow down or halt growth in some industrial sectors have been interpreted by unions as a threat to the labour force.

Most importantly, though, GDP growth has not only been criticized by experts, but also by ordinary people. This has been particularly true in industrialized societies, where the GDP creed was first developed before being 'sold' to the rest of the world. New civil society initiatives and campaigns are being promoted throughout Europe and North America with a view to fighting GDP and radically rethinking our dominant economic model. A variety of community associations, nongovernmental organizations, environmental movements and other civil society groups have been experimenting with creative models, ranging from alternative currencies to 'degrowth' initiatives, in order to promote wellbeing, defend public goods and preserve our ecosystems. In Africa, too, there is a growing multitude of citizens who are suspicious of the new 'Africa rising' discourse and see rising inequality and environmental degradation where the GDP fanatics see economic success.

Back in 1934, Kuznets warned policy makers that "the welfare of a nation can scarcely be inferred from a measure of national income."[29] Given that the assessment of a society's economic goals is key to stir its political and social development, he recommended that each generation should change the way in which progress is measured, "to formulate and reformulate it in response to changing

[29] Kuznets (1934) 'National Income, 1929–1932', cit.

conditions."[30] Time has come for us to listen to Kuznets and retire GDP. What we need is a growing, popular social movement advocating for a post-GDP world.

[30] Kuznets (1962) 'How to Judge Quality,'*cit*., p.29.