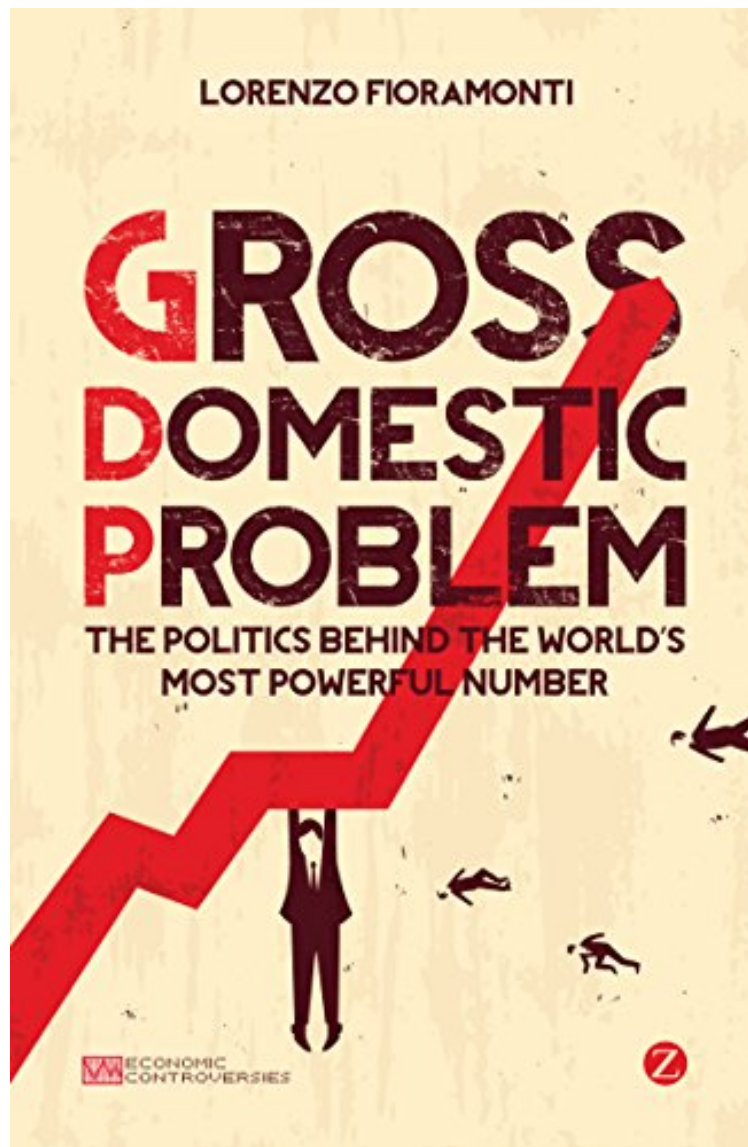


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Gross Domestic Problem: The Politics Behind the World's Most Powerful Number (Economic Controversies)

Doctor Lorenzo Fioramonti

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Doctor Lorenzo Fioramonti : Gross Domestic Problem: The Politics Behind the World's Most Powerful Number (Economic Controversies) before purchasing it in order to gage whether or not it would be worth my time, and all praised Gross Domestic Problem: The Politics Behind the World's Most Powerful Number (Economic Controversies):

7 of 7 people found the following review helpful. Desperately needs focus
By James R. Maclean
I really wanted to like this book, and in fact, made the terrible mistake of buying a copy. Like the author, I think there are serious problems with GDP. However, there are some problems with this book that pretty much defeat its purpose.
ONE: MIXING UP ISSUES One issue is that wealth (let alone money) can't buy happiness. Another is that the GDP is not a valid measure of wealth-creation. Yet another is that the methods used to estimate GDP are bad. These are three points that each require a separate discussion. Fioramonti mixes all three up, so that much of the time he winds up arguing for the first proposition. This is maddening, since it lead one to wonder why he's interested in the subject at all. An example is his constant allusions to "worship of GDP" (e.g., p.51-see note below 1), which could be interpreted to mean, making a fetish of GDP growth, making a fetish of GDP as a measure of social well-being (something else entirely), or even adherence to a doctrine of free markets (implied by citing Pres. Reagan as an example of "GDP worship"). In the end, Fioramonti grouches about the failure of GDP data to impose value and taste judgments he approves of. Yet another way in which Fioramonti does this is to inveigh against defense spending entirely, which is not inherently wrongheaded, but reminds us how unfocused this book is: Fioramonti really, really, really wants to change the subject and talk about bad art, militarism, uppity women (who have jobs, get divorces, and bear children without marrying the father), environmental degradation, and whatever strikes his fancy. In some cases, I wholeheartedly agree with him ("...at least a substantial portion of defense spending makes no contribution whatsoever to national security" p.70--who could disagree with that?), but it's beside the point: defense spending is driven by the legislature, and intensely debated there. It's not up to statisticians to just drop line items they disapprove of. Like any other human decision about procurement, it will be wrong much of the time. National output includes a greater potential to make bad decisions as well as good ones.
TWO: ASSERTION AS EVIDENCE Fioramonti wants you to know GDP is a highly suspect metric of whatever it's supposed to measure, and the proof is that some guy can produce a different figure by subtracting some line item of GDP from the total, to get a lower figure. For example, one can subtract medical care from GDP data on the grounds that people have medical problems as a direct result of the economy producing stuff (p.60). A logical corollary is that, if GDP were zero, we would have no medical problems. Alternatively, another critic of the existing GDP argues that reported inflation is far too low (p.65), and divides the official government statistic for GDP with a larger GDP deflator. Why should we trust this alternative estimate of inflation? In fact, Fioramonti merely rattles off several (not necessarily compatible) criticisms of GDP, without compelling arguments for why we ought to regard these criticisms as conclusive judgments (2). If someone argues back against his assertion, he flatly refuses to even represent it. On p.100, he dismisses critiques of HDI as an alternative metric as American chauvinism (3). Another example: Fioramonti frequently mentions social change as a prima facie bad, and prima facie caused by economic growth. He uncritically cites the increase in divorce rates, for example, without questioning the assumption that fewer divorces equals an inherently happier society. It is true that violent crime rates increased while economic growth was taking place (1960-1990-p.52), but is there a reason for assuming violent crime rates rose because GDP was growing? Because violent crime rates fell between 1992 and the present (in the USA). He also cites Fred Hirsch (p.71), who claims that most immeasurable, intangible forms of social well-being decline as a society grows richer; this may be so, but inherently unprovable.
SUMMARY Readers of this book will find what Thomas Piketty described as a "utopia, but possibly a useful one." The criticism of GDP as a metric of material output is half-hearted and indifferent; Fioramonti doesn't really care which objection you adopt, He instead is making a case against wealth, against productivity, and against impartiality. Humans have long ago made that choice, which means the reader ought to expect to make the choice individually, in which case GDP is a red herring and a waste of time. If you want to make a case against growth as such, then make a case, but don't begin by denouncing the neighbor's wallpaper.

NOTES:(1) Hardly any examples of "worship of GDP" are supplied, probably because Fioramonti thought the phenomenon was obvious. GDP growth is usually a benchmark of economic policy performance for presidents of the USA. One example Fioramonti does offer is Arthur Okun, chair of the Council of Economic Advisors under Pres. Johnson, who elevated GDP to the key parameter to drive macroeconomic policy and fight unemployment. No examination of his reasons for doing so follows.(2) On p.60, Fioramonti mentions "regrettable expenses" that are defined as "the necessary overhead costs of a complex industrial nation-state" (quoting Nordhaus Tobin, "Is growth obsolete?," from M. Moss (ed.) *The Measurement of Economic and Social Performance*, 1973, p.509. "Regrettable expenses" are assumed by Fioramonti to not belong in any metric of national economic progress. He cites (approvingly?) Christian Leipert, who claims national income should exclude all transportation costs, repair works, environmental protection expenses, security services, prisons, and most health as well as legal costs from its final total. One could logically apply this argument to anything that constitutes an input: mining is most definitely a "regrettable expense" that constitutes the "necessary overhead cost of a complex industrial nation-state." So are roads, drains, buildings and fixtures used in production, education, flush toilets, electric lights (required to enjoy light), clothing (required to enjoy warmth, and face it, if nudity were universal you wouldn't be ashamed of being naked), and so on. All of these things are inputs for things we consume directly; overhead is an input we also consume, if less directly. On page 65, he cites *The Shadow Government Statistics, LLC*, a company that publishes alternative (and invariably more pessimistic) estimates of several statistics, such as inflation,

unemployment, and so on. In all cases, this reflects an ideological judgment of SGS that the US government invariably makes the wrong choice in making evaluations of what strategy to use in representing complex and ambiguous things.(3) "...many American economists and policymakers have criticized HDI because it has consistently ranked the US below some European countries, thus casting doubts on the "Stars and Stripes" development model." The example he cites, though, is Bryan Caplan's remark that "HDI [...] is a measure of how Scandinavian your country is," which is not the same thing. Clearly, Fioramonti is not coming clean with us; it seems highly unlikely that any economist or policymaker would say "Such-and-such is erroneous because it makes me look bad." They might find some reason why it can be said to be erroneous, BECAUSE it makes them look bad, but unless Fioramonti is a mindreader, he can't prove it.11 of 11 people found the following review helpful. Great historical overview, but...By Noah LeedThe first chapter of this well-written book provides great insight into the origins of GDP and its development as a political tool, especially with respect to our permanent wartime economy. Rather than a true market economy, the worship of GDP favors a mixed economy that tends more towards a command economy than we care to believe. This focus on GDP favors ever-increasing consumption as a spur to production, without regard to whether that consumption benefits the public or not, as seen in the growth of the military-industrial complex.Chapter Two discusses the evolution of growing criticism of the metric in the 60s and 70s, and of the failure of GDP growth to correlate to societal well-being. The weaknesses and flaws are well-documented here, and this leads into the next chapter's discussion of alternate metrics that might better account for sustainability, wealth inequality, general welfare and happiness, etc.My problem with this approach is that it suggests we replace a metric of economic growth with a metric of societal well-being. There is nothing wrong with pursuing indicators that are more reflective of the welfare of human beings, but what we also need to do is replace a BAD metric of economic growth -- GDP -- with a GOOD one. GDP has given economic growth a bad name because it measures the wrong things, things that should not be equated with a truly healthy, vibrant and yes, GROWING economy.So, a great historical overview of GDP here, but... the book still misses the core problem with GDP: it is NOT a metric of productive economic output. The author comes to the same conclusion that many GDP critics have come to, which is a false assumption that pursuit of "economic growth" equates to pursuit of GDP growth. They are not the same thing.Mr. Fioramonti seems aware of this disconnect but does not focus on it. Early in the book he states GDP "measures productive output in terms of market prices". As the discussion evolves, it becomes apparent that government spending has no market price; that prices are influenced and manipulated by "taxation, subsidies, lobbying, cartels, monopolies" and politics; that many so-called market values are subjectively imputed and deflated/inflated based on productivity gains and hedonics; that CPI calculations have changed over time and are of questionable accuracy; and that the paper-wealth of financial speculation is counted as productive output.In other words, GDP measures both non-productive output AND productive output, in terms of both non-market prices AND market prices. It does this by looking at the sum total of final expenditures, but most importantly does so without any regard for the total amount of public and private debt incurred to make those expenditures, and without any regard for the increase in the money supply (ignoring the potential for future price inflation and/or debt deflation).So what GDP is really measuring is the constantly inflating money-value of the economic activity of consumption (largely debt-based) that is part of the formal monetized economy. If you define THAT as "economic growth", then GDP growth can be equated with it. But if you define "economic growth" as the increased production and supply of the goods and services that are actually needed and desired by consumers, regardless of money-value, then GDP has no definitive relationship to economic growth. The fallacy of GDP should not be considered a fallacy of growth.I like this book a lot more than "Mismeasuring Our Lives" for its historical emphasis and livelier writing style, but both have the same shortcoming in my view. They rightly reject GDP, but do so without fully exploring the economic reasons (Say's Law, the inflationary global fiat-dollar standard, the deflationary effects of productivity gains, etc.) that could help convince growth-fans to also reject the GDP metric as fatally flawed. (I further discussed some of these reasons in my review of "Mismeasuring Our Lives").GDP is a Keynesian metric, and should be rejected by anyone who rejects Keynesianism, because the easiest way to increase GDP growth is just to print/borrow money. This is not true "growth", but rather is a way of cheating to give the illusion of growth, as reflected in the artificial increase of GDP by means of debt and/or inflation. This desire for phony growth gives governments a blank check for deficit spending to no real productive end. Even so-called "investments" in infrastructure and education can be wasteful and politically motivated, without any metrics to measure real returns.Far more insidious is the expansion of credit/money by the central banks and the banking system. This fuels the over-expansion of production to meet the phony debt-based demand of consumers, businesses and governments, but even worse it fuels the growth of speculative asset markets. The financial sector uses debt to create paper profits from asset inflation, and this feeds the growing wealth inequality that we see. It demonstrates the true flaw of relying on GDP to measure so-called growth: GDP is a money-based metric that views money-incomes as wealth, rather than viewing the output of tradeable goods as wealth. What we end up measuring is the steady increase of money-pumping, which allows for rising GDP to give the illusion of a growing prosperity that is nowhere in sight... except in the vast paper wealth generated by the financial sector.We boost GDP now by stealing both demand and purchasing power from the future, which subsequently creates apparent "shortages" of demand and purchasing power as we proceed forward into that future. This leads to further expansion of credit as a source of phony

"demand" and thus deepens and perpetuates the debt cycle. It is likely to end badly. 4 of 4 people found the following review helpful. Wealth of interesting material about history of GDP and alternatives to it. By A. J. Sutter. By the time I read this book I'd been researching and writing about GDP and "de-growth" for roughly five years; yet I still found a lot of new information here. That, very simply, is why I give this book 5 stars. The author (LF) is a political statistician who's obviously enthusiastic about his field. His writing is generally clear, without much jargon or tortured syntax. I do wonder whether the richness of detail might be a little overwhelming for a reader who's new to these topics. If you're a wonk, though, the book can be quite enjoyable. As LF makes clear, objecting to GDP as a metric of well-being or economic production doesn't equate to objecting to economic growth. Most of the alternative metrics discussed in Chapter 3 of the book have been proposed by economists or institutions who are very much in favor of economic growth. Even some of the activist alternatives to growth described in Chapter 4 aren't necessarily in opposition to growth: e.g. while supporters of *de-croissance*/de-growth do object to growth for reasons of justice and ecology, the "transition towns" movement is based more on the idea that economic growth will inevitably wind down because of lack of resources, such as the unavailability of petroleum. It's refreshing to see this distinction made in an English-language book. Writers like Bill McKibbin and Richard Heinberg tend to lump arguments based on peak oil (growth would be nice but no longer an option) together with arguments based on environmental destruction (growth is killing the planet); obviously that kitchen-sink style of pleading isn't internally consistent. That said, LF seems to be in the camp that objects to both to GDP and to economic growth, and he sometimes blurs the line between the two, as in his conclusion. Among the topics that were newest to me were: the discussion of growth metrics used in the USSR (Chap. 1); a very interesting 1959 paper by Stanford economist Moses Abramovitz (d. 2000), which lays out some issues with using GDP as a welfare measure, especially over extended time periods (Chap. 2); and the spontaneous development of barter and cooperatives during the Argentine credit crisis of the first decade of this century (Chap. 4). There is also a useful brief survey of alternative currencies, focused mainly on Germany and the UK. (There have also been other experiments with them, e.g. in France and Japan). One of the few places where I felt the exposition could have been clearer was in LF's discussion of the treatment of financial assets in national accounting. The United Nations System of National Accounts was revised in 2008 to include a definition of financial derivatives, as LF notes. But he goes on to say that "[T]he 'apparent' wealth produced by financial speculation ... was fully integrated into GDP accounting so as to become a key driver of measured economic growth" (@111). This strikes me as unclear and potentially misleading. Fees for services relating to financial transactions, such as underwriters' commissions in a public stock offering, are indeed included in GDP; but the amounts involved in the financial deal per se, such as the money paid for shares of stock, are not. The latter is much huger than the former, which helps to explain how the total annual volume of trading on the NYSE and NASDAQ has exceeded US GDP every year since 1997 (including the crash years of 2008 and 2009). By the way, less than 3% of that annual volume represents money raised by issuing companies, i.e. less than 3% of the volume will be used by issuers to pump up GDP through the purchase of goods and services. Other financial markets are even bigger: e.g., monthly turnover on the foreign exchange market exceeds global annual GDP. These matters aren't mentioned in the book. This is a relatively short book, so there's a lot of other pertinent material left out, as well. Here are some places to look: @ LF often mentions the tragic results of ignoring the advice of Simon Kuznets, the inventor of GNP (predecessor to GDP), who was maybe the one truly wise Nobel economics laureate in history. But he leaves out the story of the "Kuznets curve," which led to billions of dollars of foreign aid being deliberately spent on creating inequality in nations of the South (once again, the opposite of Kuznets's intentions). You can find a great article by Timothy Patrick Moran about this (2005) online. @ The book's brief history of GDP doesn't quite explain why economic growth became such a priority in the post-WWII period. H.W. Arndt's "Rise and Fall of Economic Growth" (1978), written during the height of the Cold War, will help to fill this in. Among other elements of the story, Arndt highlights the role played by the U.S. Council of Economic Advisers in the late 1940s, and the outbreak of the Korean War. @ Another refreshing feature of LF's book is that he occasionally does cite to non-Anglo-Saxon authors, sometimes even when they're not writing in English. Still, Andreacut; Vanoli's gigantic history of national accounting (2002) and Jean Gadrey and Florence Jany-Catrice's survey of alternative indicators (3rd ed. 2012), which are standard references in French academic literature in this field, aren't cited here. There isn't really a true alternative to either work in English. (Vanoli's work is available in English translation, albeit at around \$200, and the other work is also available in English, but in a now-outdated edition.) @ The de-growth field is far more fractious than LF has a chance to describe. E.g., the same Jean Gadrey mentioned above is a prominent economist who was a member of the Stiglitz Commission, whose work LF does discuss (Chap. 3); but he is also an "objector to growth" whose approach is more nuanced than that of Serge Latouche, whom LF flags as "arguably the most prominent intellectual in the [de-growth] movement." (Latouche is certainly among the most vocal, at any rate.) If you can read French, Gadrey's blog, on the website of the magazine *Alternatives Economiques*, is worth checking out. Although he is no longer alive, Andreacut; Gorz's "Ecologica," which is available in English, provides an even deeper intellectual framework for the de-growth movement. And if you can read Italian, Pierangelo Dacrema has written an entertaining polemic against the "dictatorship of GDP" that manages to make a few caustic points not made in the present work (*La dittatura del PIL* raquo;, 2007). The publisher has allowed the author to include both endnotes

and a list of references, a kindness to the reader that's falling out of fashion at university presses. Despite the omissions I've mentioned above, you can learn a lot from this book; I certainly did.

Gross domestic product is arguably the best-known statistic in the contemporary world, and certainly amongst the most powerful. It drives government policy and sets priorities in a variety of vital social fields - from schooling to healthcare. Yet for perhaps the first time since it was invented in the 1930s, this popular icon of economic growth has come to be regarded by a wide range of people as a 'problem'. After all, does our quality of life really improve when our economy grows 2 or 3 per cent? Can we continue to sacrifice the environment to safeguard a vision of the world based on the illusion of infinite economic growth? Lorenzo Fioramonti takes apart the 'content' of GDP - what it measures, what it doesn't and why - and reveals the powerful political interests that have allowed it to dominate today's economies. In doing so, he demonstrates just how little relevance GDP has to moral principles such as equity, social justice and redistribution, and shows that an alternative is possible, as evinced by the 'de-growth' movement and initiatives such as transition towns. A startling insight into the politics of a number that has come to dominate our everyday lives.

"This book is long overdue. Finally, the political interests behind the GDP mantra have been unveiled, forcing us to rethink mainstream economic views and build a more just and sustainable world. It is indeed the most important struggle of our generation." - Kumi Naidoo, Greenpeace International Executive Director

"As the planet's ecosystems and local and national economies collapse, going beyond GDP has become a survival imperative. This is the challenge that Fioramonti has taken up in *Gross Domestic Problem: The Politics Behind the World's Most Powerful Number*. Further to tracing the short history of GDP, its roots in mobilising for the war, its artificial construction of wealth erasing nature's contributions and the wealth created by women and all who work for sustenance, the author introduces us to new initiatives, like those of Bhutan, to measure real wealth as well being and happiness." - Vandana Shiva

"Going beyond the flaws of using Gross Domestic Product (GDP) which many have highlighted, this inspiring book by Fioramonti provides a much needed history of the development of GDP and an analysis of how it has been (mis)used to define progress. Further to pointing out the problem of how government policy priorities have been led astray, Fioramonti provides a thorough and up-to-date picture of the various initiatives that have emerged to demote the role of GDP. Not naive in its recognition of the challenges faced by this endeavour, *Gross Domestic Problem* is an excellent read for academics and activists alike." - Saamah Abdallah, The New Economics Foundation

"Never before has one single measure shaped our world so profoundly. Incisively illuminating the politics behind its numbers, Fioramonti has reinforced the urgent need to reset our coded image of ourselves." - Dr Simon Zadek, award-winning author of *The Civil Corporation*

"Since WWII, we've been willing to sell our grandchildren's tomorrow for a bump in GDP today. Fioramonti reveals the insanity that rules economic thinking by giving us a simple, clear account of "the world's most powerful number," while also surveying the superior alternatives." - Richard Heinberg, author of *The End of Growth: Adapting to Our New Economic Reality*

"*Gross Domestic Problem* tells the amazing story of how GDP became the king of all measurements, against the warnings of its very architects. In brilliantly excavating the history of national income measurement, the Depression-era birth of GDP and its politicization in the Cold War, and the rich body of work behind today's global movement to transform national accounting systems, Fioramonti illuminates the politics of GDP like no one else has. This is a singular contribution on a vitally important subject." - Lew Daly, Senior Fellow, Demos (USA), author of *Beyond GDP: New Measures for a New Economy*

"GDP numbers are quoted all the time, but the power of GDP relies on the fact that hardly anyone knows what it means. As Fioramonti shows in this indispensable guide, there are at least three things wrong with Gross Domestic Product: it's gross, it's domestic and it's a product. That is, the GDP number takes no account of the depletion of capital goods or natural resources, treats income accruing to foreign investors as a measure of national success and focuses on the means of economic activity, production, rather than the ends. *Gross Domestic Problem* explains why GDP is both so useful and so misleading, and gives a readable history of this most powerful and mysterious of numbers." - John Quiggin, University of Queensland

"Fioramonti shows convincingly that ever since its invention the measurement of GDP has rested on highly controversial ideological assumptions. GDP is thus an ideological weapon, not a neutral scientific measure. There is no hope of escaping the current crisis until we recognise the role that obsession with GDP has played in causing it." - Jonathan Aldred, Director of Studies in Economics, University of Cambridge