ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE
BOOK REVIEW
NO. 21 | 2015

GDP: A Brief but Affectionate History

Diane Coyle

Princeton University Press. 168 pages. 2014. ISBN 978-0-691-15679-8. US $19.95

The book "GDP: A Brief but Affectionate History", takes a historic view of how an artificial yet highly influential indicator of economic success: GDP, came into being, evolved through time, and outlines the challenges it has faced along the way. The author highlights the popularity of this statistic even during its infancy, and how important it has become over a short span of time, attaining the status of being a proxy for national success or failure. This single statistic has the power to decide the fate of elections, overthrow governments and initiate popular movements. Yet, it is far from being perfect and ignores a considerable realm of economic activity. According to François Lequiller, head of national accounts at the OECD, "Part of the problem is perhaps that we expect too much from this trusty, though misunderstood, indicator".

Highlighting both the limitations and the advantages of the GDP figure, Diane Coyle does a fantastic job of laying out its evolution in a chronological manner and explains how different circumstances have made it an increasingly less reliable indicator over time. The author argues that it is probably not the best economic indicator for the twenty-first century; where as previously, it has had the honour of being crowned as "one of the great inventions of the 20th century- by Paul Samuelson, which was an understandable exaggeration".

The advent of GDP dates back to the 1930s, when the Great Depression had devastated the US economy and had far reaching consequences. This metric's standing was further solidified at the onset of World War II as the Allies needed to effectively monitor the impact of war on their respective economies. Simon Kuznets has been identified as one of the major contributors in developing GDP statistic, and the base statistic has been of use to developing other indicators as well, such as the GNP (Gross National Product).

Coyle is wary of the technicalities behind the construction of the GDP figures and is clear in identifying how changes in these details can lead to substantially different conclusions. In November 2010 Ghana updated the weighting they used to calculate their price index, and their GDP figures increased by 60% overnight. The Ghanaian economy did not go through any change itself, but this change in weighting alone had contributed to the reclassification of Ghana from a "low-income" to a "low-middleincome" economy. Some evidence indicates that the economies of sub-Saharan African countries could have grown three times faster over the past two decades if the weighting had been updated. Even with the adoption of the chain-weighted price index by most developed countries, to apply this method to pre-1950 data would "involve a major reinterpretation of American history," according to Angus Maddison, who had constructed historic GDP statistics without chain weighting.

Of the many issues that the GDP statistic has faced through time, is its ability to measure the size of an economy beyond material items. As Coyle points out, "services account for more than two-thirds of GDP in the OECD economies," yet measuring output for service providers like accountants and musicians is limited to the number of customers attended to, ignoring the crucial aspect of quality. The same applies to the concept of productivity - statistics, for example, would consider a musician to be more productive if he/she doubled his/her number of performances by performing a Mozart concerto at twice the speed. Extending this analysis to intangible products and services, within the digital economy items like search engines and applications are often excluded from GDP statistics, as they are free. According to the economist Michael Mandel, we should add "data" as an additional category in the computation of GDP; in 2012 alone this addition would have contributed 0.6 percentage points to real GDP growth.

In this book, Diane Coyle acknowledges the gradual rise of environmental considerations and alternative measures of poverty and welfare, like the Human Development Index, as strong challenges to the single-tracked fixation on the GDP growth as the ultimate metric of success. The concept of using a "dashboard" of indicators side by side to assess social welfare, as opposed to deriving a single number from a range of statistics, is another alternative discussed. Unfortunately, the author's analysis is weakened by not addressing the dismissal of these measurements in the political sphere. Coyle recognizes that, "there is no evidence yet of dashboards displacing the prime status of GDP growth in political debate," and that "as long as political contests focus on economic growth", measurements like the satellites accounts on the environment are "unlikely to be influential." She does not, however, address these political realities as impediments to smart and well-rounded public policies.

The author admits in honesty that the GDP is not a measure of the welfare of the economy. A more accurate measure of welfare is the Net National Product (GNP minus depreciation), which represents the yield of capital stock in the economy or how much a country can sustainably consume within a period. Others like Nicholas Oulton highly recommend including environmental capital to account for depletion of natural resource stock and simultaneously adjusting the national accounts to consider that innovation has increased how much we can sustainably consume from a fixed level of capital assets.

Coyle makes the distinction between the measurement of welfare and GDP multiple times throughout the book. She is clear in identifying that they measure different factors as “GDP is measuring output and income.” Still, in her attempt to make a case for GDP as the best measurement of economic growth to date, and additionally stressing that economic growth is strongly linked to welfare and well-being, she doesn’t place enough emphasis on moving past the common obsession with GDP. This implies thinking beyond accounting for new complexities in the economy, intangibles and other structural concerns; ultimately this means we must abandon our focus on measurements of output and create a road map for a future where welfare carries a heavier weight in our understanding of progress.

Within the confines of this book, Diane Coyle has elegantly and succinctly told an engaging story about the history of GDP, the challenges it faces, and its relevance in the statistical needs for the future. Throughout her book Diane Coyle seems to be asking the right questions: To what extent should we want to measure well-being within the technical jargon of economics as opposed to just output? Has GDP reached its limits? In answering these