# ‘GDP’, by Diane Coyle

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**GDP: A Brief but Affectionate History**, by Diane Coyle, *Princeton University Press, RRP$19.95/£13.95*

What does an economist do? Ask this question in a normal gathering and one of the least offensive responses is that they obsess over gross domestic product. Yet the mere mention of GDP is enough to stir up a hornet’s nest of misunderstandings. To some it is a supreme goal of national policy; to others an obsession of a degenerate culture. In fact it is neither.

The first essential is to demystify GDP. Think of an island with no foreign trade. Its inhabitants will still produce something, which can be valued. The things they produce will be bought by other inhabitants, which in turn will generate incomes that will be spent. Thus output generates income which in turn generates expenditure. This is a three-way process that you can enter through any doorway you like, none of which is more fundamental than others.

This is all that GDP is. It is obviously a rough-and-ready way to assess the potential wellbeing of a society. But it is not much use without a price index. If GDP doubles because of inflation this is no gain at all and some would regard it as net loss because the advantages of a stable price level have been thrown away. That is why more sensible economists prefer to talk about “real GDP”, thus scaring away the potentially interested onlooker even more.

But this is the beginning of the qualifications. To have much meaning we have to talk about “real GDP per head”. Then we must allow for hours of work. If working hours were doubled by the decree of a dictator, real GDP per head would rise, although probably by not nearly as much as 100 per cent. So ideally, one would need a measure of GDP per hour, which is more difficult to obtain.



This is probably as far as one can go without entering into polemics and disputable value judgments. Around 1950, real GDP per head was much higher in North America than in western Europe and much higher in western Europe than in the Soviet Union. Whatever one thought of how western governments or their citizens chose to spend their incomes, a rational student would be bound to conclude that in terms of potential welfare, America would rank as number one, western Europe number two and the Soviet Union as number three, although not in strict proportion to their GDP per hour.

Other things being equal, a higher real GDP per head is better than a lower one. That is the element of sense behind the “growthmanship” debates of the second half of the 20th century. But it is here, too, that the suspicions of ordinary people come into their own. A faster growth rate can be achieved at too high a price. A modest increase in the growth of real GDP achieved by concreting over rural England and destroying the cathedral cities may well be not worth having. And the richer the country, the more important the reservations. But for countries on starvation levels, it would be an affront to hold back potential improvements in living standards out of concern by westerners for their cultural heritage, probably misunderstood anyway.

Diane Coyle’s book is as good a simple guide as we are likely to see. It unites the conceptual and the arithmetical explanations, with a good deal of history thrown in. She pays well-deserved tribute to early 18th-century writers such as Gregory King, and explains without exaggerating innovations in measurement (such as the inclusion of services that were earlier regarded as irrelevant fripperies)

My one quibble is that Coyle does not say enough about GDP as a point of perspective for other things. We may know that Illyria spends a particular sum on military matters. Is this a lot or a little? As a first approximation, state the sum as a proportion of GDP. Then we can start a discussion.

The main problem with GDP is that it adds an unnecessary air of mystification to what are ultimately pretty basic matters. When I was at university even the most learned economists spoke just of national income. GDP is simply gross national income without deducting depreciation, which came to be regarded as too difficult to measure on a national scale. It would probably aid understanding if discussion switched back to the national income concept, leaving GDP for the more technical footnotes.

After all qualifications, it is better to be rich than to be poor. This applies at a national as well as a personal level. There is also a qualification to be made about the less immaterial forms of growth. We cannot go on producing more and more “stuff” until there is standing room only on the planet. But if I recite poetry to you and you play the harp to me, the performances could in principle continue to improve without any threat to the environment, the planet or any higher good. The cult of GDP has given economic growth a bad name.

*The writer is an FT columnist*