

Gross Domestic Problem: The politics behind the world's most powerful number

No doubt GDP is the world's best-known 'number' and an extremely powerful political tool. Over the course of the past century, it has dominated not only in capitalist countries but also in socialist societies. 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 was invented in the US in the late 1930s to allow jump-starting the economy out of the Great Depression and maximizing production in what was soon to become a wartime economy. An economist of Russian descent, Simon Kuznets, then working at the National Bureau for Economic Research, was tasked with the job of condensing all production by businesses and expenses by government into a single number, which should rise in good times and fall in bad. This number was initially called Gross National Product (GNP) and included market-based transactions, but left out non-market activities, such as voluntary work, household services and natural capital.

In 1942, Kuznets went to work for the War Production Board and his numbers proved that the Roosevelt's Victory Program was badly designed: he was convinced that the country was capable of a greater effort without curtailing internal consumption. The president's political advisors, argued for the country's seizure of industries and corporations. In the end, the economists prevailed and the government revised its approach. As expected, the US economy boomed and the country's capacity to sustain military exposure appeared almost unlimited. By 1944, the US could afford to wage the war simultaneously on two fronts while domestic consumption was at an all-time high. By contrast, Hitler's military targets were disconnected from the overall performance of the German economy, a deficiency caused by the lack of GDP accounts. For Kuznets' former boss, Wesley Mitchell, there is no way to describe how much GDP "facilitated the World War II effort." Economists nowadays

agree that the invention of GDP was as important to win the war as that of the nuclear bomb.

To guarantee GDP growth after the war, the government pushed private consumption on a massive scale and increased its defence budget. While military conflict had marked the success of GDP as a political instrument, the postwar system of mass consumption sealed its grip on society as a tool of economic hegemony: “Our young men had marched off to war,” once wrote economic analyst Colb and his colleagues. “Now Americans were marching off to the malls that eventually covered the land.” And this intimate relationship between war and consumption did not fade away in times of peace. Between 1948 and 1989, American economic growth was largely dependent upon military spending. Kuznets did not like these developments and argued for a ‘peacetime concept’ of GDP, with the exclusion of military expenses.

The GDP mantra has also resulted in the increasing importance of economists in policy making. Before the war, economists were rarely quoted in the media, but ever since the invention of GDP, economic experts have become essential players in public debate. Conformity among mainstream economists has been pervasive. The fact that GDP neglects some of the most important factors in a society, such as the informal economy, social relations, the value of natural resources and – perhaps most importantly – human wellbeing, never seemed to bother them. Unlike them, Kuznets had always recognized that GDP is “affected by implicit or explicit value judgments” and “controversial criteria.”

While GDP served the interests of political and business elites for several decades, it appears to have run out of steam. Since 2007, estimates of GDP have been revised several times, with governments trying to manipulate data and results for political purposes. In Europe, the OECD and the EU promoted a new initiative by the name of ‘Beyond GDP’. British Prime Minister David

Cameron called on national statisticians to complement the ever-more gloomy calculations of quarterly GDP trends with more general references to the “happiness” of Britons. The US government followed suit, sponsoring a new measure of “subjective well-being.” Even China embarked on a controversial ‘green’ GDP project. Finally, in April 2012, the UN Secretary General maintained that while GDP “has long been the yardstick by which economies and politicians have been measured”, it “fails to take into account the social and environmental costs of so-called progress.” He called for “a new economic paradigm” to capture social, economic and environmental wellbeing. Together, he said, these define “gross global happiness.”

The GDP war did not end in 1945. It turned into an endless conflict against social wellbeing and natural resources, in which consumers became the new foot soldiers. GDP is built on a great lie. This lie says that markets are the only producers of wealth. What is not priced, what does not involve a formal financial transaction based on money, does not count. By paraphrasing Yale professor Charles Lindblom, one may say that GDP has not only “imprisoned our thinking about politics and economics,” but also our capacity to reinvent our social environment. However, “where there are prisons, there are also jailbreaks.” By challenging GDP, we stand a chance to regain control over our political, social and economic institutions.