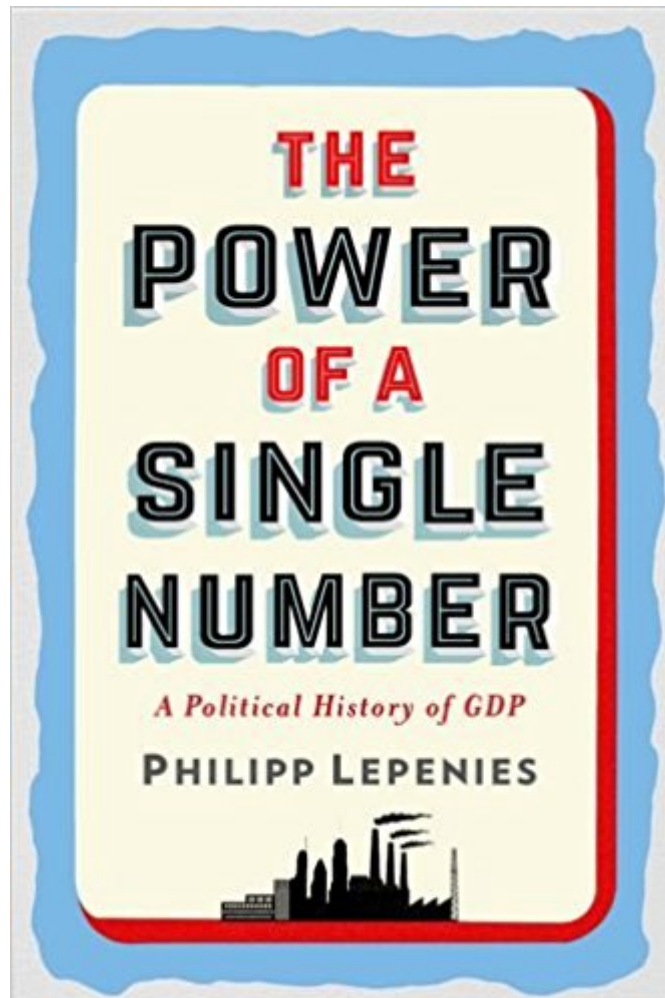




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The Power Of A Single Number: A Political History Of GDP



Synopsis

Widely used since the mid-twentieth century, GDP (gross domestic product) has become the world's most powerful statistical indicator of national development and progress. Practically all governments adhere to the idea that GDP growth is a primary economic target, and while criticism of this measure has grown, neither its champions nor its detractors deny its central importance in our political culture. In *The Power of a Single Number*, Philipp Lepenies recounts the lively history of GDP's political acceptance and eventual dominance. Locating the origins of GDP measurements in Renaissance England, Lepenies explores the social and political factors that originally hindered its use. It was not until the early 1900s that an ingenuous lone-wolf economist revived and honed GDP's statistical approach. These ideas were then extended by John Maynard Keynes, and a more focused study of national income was born. American economists furthered this work by emphasizing GDP's ties to social well-being, setting the stage for its ascent. GDP finally achieved its singular status during World War II, assuming the importance it retains today. Lepenies's absorbing account helps us understand the personalities and popular events that propelled GDP to supremacy and clarifies current debates over the wisdom of the number's rule.

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Customer Reviews

It is an amazing but little-remarked fact that governments all over the world take as their top economic objective the increase of one number: gross domestic product. Philipp Lepenies traces how this strange unanimity came to be, taking the reader on a colorful journey through England,

Germany, and the United States and bringing things into the present with an account of current debates about replacing or supplementing GDP with other indicators of welfare. *The Power of a Single Number* is beautifully written and easily accessible to anyone who wants to know more about what lies behind the world's most powerful number. (Robert H. Wade, London School of Economics. Leontief Prize winner, 2008.) A great book on understanding why GDP was put at the center of the political and economic framework that has driven the world over the past sixty years and why this choice led to the underestimating of other issues, such as socioeconomic inequalities and environmental degradation. *The Power of a Single Number* also provides insights on how to build a 'post GDP' era, especially in the context of a possible future 'secular stagnation.' (Enrico Giovannini, University of Rome) By asking how GDP became the most influential economic statistic of our time, Lepenies provides a fascinating new perspective on the history of empirical economics. Economists play important roles in his account, but ultimately it was politics and the priorities of wartime that drove the demand for GDP measurement. While many economists today are well aware of its limitations, political inertia keeps GDP on its throne. (Martin Ravallion, Georgetown University) This little book about a big number will impress readers who might never have previously considered the statistics underlying our lives. (Publishers Weekly) Lepenies's absorbing account helps us understand the personalities and popular events that propelled GDP to dominance, clarifying current debates over the wisdom of the number's rule. (800-CEO-READ) [An] informative book. (Richard N. Cooper Foreign Affairs) Recommended. (CHOICE)

In *The Power of a Single Number*, Philipp Lepenies tells the lively, unpredictable history of GDP's political acceptance and eventual dominance. Since it was first widely used in the mid-twentieth century, GDP (gross domestic product) has become the world's most powerful statistical indicator of national development and progress. Lepenies's absorbing account helps us understand the personalities and popular events that propelled GDP to dominance, clarifying current debates over the wisdom of the number's rule.

The author's tone and enjoyable writing style make this an accessible read for those in the know and those who want to know more about GDP. He succeeds in guiding the reader through historical twists and political positioning that have made GDP what it is today and uncovers how GDP came to be the benchmark for growth and why it persists regardless of legitimate criticism.

There are a surprisingly large number of books devoted to GDP and its criticism. This book is

somewhat novel in the sense that it is not about economics at all; it's about the diffusion of an idea in society. The first chapter introduces a 17th century political analyst named William Petty, who attempted to estimate the components of national income. The goal is to restructure taxation, which was then mostly on fixed assets; Petty believed that the flow of current output was much greater and a better base of taxation. Later, in the 20th century, Colin Clark (UK/Australia) developed many of the ideas and techniques of national income. He also is credited with the idea of economic growth as a major tool of social progress, and an urgent mission of government in the less-developed countries (LDCs). It was the Depression-induced revolution in economic thought, however, that made national income accounting (NIPA) a concern of economists. Keynes's colleagues, James Meade and Richard Stone NIPA data collection in the UK, while Simon Kuznets did the same in the USA. Kuznets was originally interested in business cycles and he would continue to conduct pathbreaking research in that area. But having accomplished the logistical feat of calculating national income at the NBER (1), that job was taken over by the US Department of Commerce under Milton Gilbert. Gilbert largely "invented" GDP, although mainly by incorporating advice from Meade and Stone. Gilbert was an assistant of Kuznets who rejected his efforts to make national income data reflect economic objectives. Gilbert regarded GDP as a narrow metric of economic capability, and was heavily influenced by wartime concerns. Specifically, capital depreciation and government expenditures (including on armaments) were included in GDP. Kuznets objected to the inclusion of either because both were "regrettable necessities" rather than items of value. In general, after 1946, Kuznets was to call for a more value-laden national income metric, and many critics of mainstream economics have taken up this call. The chapter on Germany adds to the richness of narrative, as federalism, then world war, posed immense challenges to the collection of economic statistics. German experts were highly skeptical of the worth of national income estimates in and of themselves (2). Ironically, modern economic data collection returned to Germany via a team of experts tasked with using the data to destroy the German economy (and win the war). The leader of the team was J.K. Galbraith; other members, like *The Joyless Economy: The Psychology of Human Satisfaction and Consumer Dissatisfaction* (Galaxy Books), *Small Is Beautiful: Economics as if People Mattered*, and *Monopoly Capital: An Essay on the American Economic and Social Order*, were all to become famous as harsh critics of American economic and social outlook. After the war ended, Galbraith, his international team, and ex-Nazi officials compiled the first reliable data on the German economy; the job was handed off to a British-German team in the late '40s. Not surprisingly, here Lepenies seizes on this new statistical office of the Federal Republic as an example of Anglo-Saxon cultural imperialism (p.120). He does admit that the French leadership

recognized GDP data as a valuable administrative tool, and took to it readily. After chapter 5, Le Penies shifts away from the realm of academic debate among politically inconsequential, but brilliant, statisticians and economic pioneers, to a new world that these men have created. The champions of growth, having saved the world from depression and fascism, are now complacent technocrats dogmatically inflicting the gospel of growth on a reluctant world. I feel that this is needlessly conspiratorial: GDP growth was a vital objective if countries were to preserve market economies AND preserve tolerable social models. Voters, business managers, and workers all favored growth in incomes. Additionally, the Cold War imposed both a military urgency and an ideological competition in economic performance. The immense debt of the war and the cold war, reconstruction, and urbanization⁽³⁾ imposed their own treadmill on the world economic system. Finally, growth was now virtually inevitable in a tolerably well-managed economy. In summary, this is a good introduction to GDP as an intellectual challenge, but it doesn't really address any modern criticisms of GDP, or explain in what sense it's very

powerful. _____ NOTES⁽¹⁾ GDP is the sum of the values of all goods and services produced in a country; it differs from GNP in so far as the latter includes net income from land and capital employed abroad. The methods of estimating GDP are now very explicit, but the broader, more universal idea of aggregate national output/revenue is referred to as "national income" (not to be confused with gross national income, or GNI). Simon Kuznets famously had a controversy with Milton Gilbert over several aspects of national income estimating; Kuznets, in particular, argued that depreciation needed to be deducted from the NIPA, especially during peacetime. Piketty (2014-endnote #18 from p.58) endorses Kuznets's position.⁽²⁾ German experts and economists were largely scornful of the potential value of any estimate of national income, regardless of methodology or accuracy. One reason was that the estimates produced were presented as metrics of general well-being, and therefore, afforded a judgment of governance. The Third Reich (1933-1945), aside from the total wreckage it made of Germany, spawned a large number of agencies with murky jurisdiction.⁽³⁾ "Urbanization" is an inadequate term for the huge scope of responsibilities governments were required to assume after World War II. Agriculture experienced a technical revolution, and this created a huge drop in farm employment. The destruction of cities in Europe and their obsolescence everywhere else (because of modern transport, etc.) imposed a greater burden than even the debt/current spending burden from war. Growth made this burden

manageable. _____ ADDITIONAL READING Diane Coyle, *GDP: A Brief but Affectionate History*, Princeton University Press (2015), for a defense of

GDP (but not its misuse) Partha Dasgupta, *An Inquiry into Well-Being and Destitution*, Clarendon Press, Oxford (1993), Chapter 4 Lorenzo Fioramonti *Gross Domestic Problem: The Politics Behind the World's Most Powerful Number*, Zed Books (2013); see comments for a link to my review of this book. Ehsan Masood *The Great Invention: The Story of GDP and the Making and Unmaking of the Modern World*, (2016); this book rubbed me the wrong way, and I feel it supports a rather conspiratorial approach to the history of ideas. Thomas Piketty, *Capital in the Twenty-First Century*, Belknap Press (2014) Thomas A. Stapleford, *The Cost of Living in America: A Political History of Economic Statistics, 1880-2000*, Cambridge University Press (2009), *Welfare and the National Accounts*, pp.319-29. Please note that this work is focused on the most obvious technical challenge of GDP estimation, viz., adjusting for inflation; ALSO, it is focused on the situation in the USA. I was quite pleased with it.

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