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# GDP: A Brief But Affectionate History



## Synopsis

Why did the size of the U.S. economy increase by 3 percent on one day in mid-2013--or Ghana's balloon by 60 percent overnight in 2010? Why did the U.K. financial industry show its fastest expansion ever at the end of 2008--just as the world's financial system went into meltdown? And why was Greece's chief statistician charged with treason in 2013 for apparently doing nothing more than trying to accurately report the size of his country's economy? The answers to all these questions lie in the way we define and measure national economies around the world: Gross Domestic Product. This entertaining and informative book tells the story of GDP, making sense of a statistic that appears constantly in the news, business, and politics, and that seems to rule our lives--but that hardly anyone actually understands. Diane Coyle traces the history of this artificial, abstract, complex, but exceedingly important statistic from its eighteenth- and nineteenth-century precursors through its invention in the 1940s and its postwar golden age, and then through the Great Crash up to today. The reader learns why this standard measure of the size of a country's economy was invented, how it has changed over the decades, and what its strengths and weaknesses are. The book explains why even small changes in GDP can decide elections, influence major political decisions, and determine whether countries can keep borrowing or be thrown into recession. The book ends by making the case that GDP was a good measure for the twentieth century but is increasingly inappropriate for a twenty-first-century economy driven by innovation, services, and intangible goods.

## Book Information

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## Customer Reviews

I read *GDP: A Brief but Affectionate History* by Diane Coyle for three reasons: (1) to see if the book can be used as a textbook in a principles of macroeconomics class; (2) of course, to learn more about GDP and economic growth; and (3) to learn writing from an inspiring economics communicator. Arnold Kling rightly says that economic history can be used to teach macroeconomics more effectively. GDP presents a historical narrative of the evolution of GDP, which started as a result of war, and soon became the main macroeconomic indicator. So, yes, with a few explanations to clarify concepts, one can use the book in an introductory class on macroeconomics. The Gross Domestic Product has been criticised frequently. Critics argue, among other things, that GDP is not a good measure of social welfare, that it does not include the informal economy, and that it does not deal well with innovation. Those criticisms are justifiable and spot-on, but as Diane Coyle argues, in spite of its many handicaps the GDP is still a useful tool to measure economic performance. From the beginning GDP was not seen as a measure of social welfare, but of income and production. Of course, we need other indicators to measure welfare, but as far as income and production goes, the GDP is still useful. That does not mean that it is perfect, not at all. In fact, it needs serious modifications. I like Diane's writing style a lot. I follow her blog closely. However, I can not tell exactly what is so attractive about her writing. She explains her ideas and arguments with an almost optimal level of complexity, no more, no less. You can look at the way she describes GNP in the book.

Gross Domestic Product is a concept so massive, so convoluted, so compromised by rules, exceptions, patches, and qualifications, that only a handful of people in the world fully understand it, and that does not include the commentators and politicians who bandy it about, daily. "There is no such entity out there as GDP in the real world, waiting to be measured by economists. It is an abstract idea." That sets the tone of Diane Coyle's excellent and sympathetic examination of GDP. Then it's on into the impenetrable forest. Inconsistencies abound. If you care for your child, it doesn't count in GDP. If you take in neighborhood children, it does. If you paint your bedroom, it doesn't count. If you hire the kid next door, it does. Technology and technical improvements don't count much, because we don't know how to measure and incorporate them. Even in the mid 90s, we knew that technology was actually trimming inflation by 1.3%, but that was never acknowledged. This is the black hole of GDP, as tech becomes huge. A special conundrum comes from the soaring financial sector, which makes money without actually producing anything. Accounting for that has evolved from "Alice and Wonderland" to "statistical mirages" that warp the GDPs of many nations. Financials account for nearly 8% of US GDP, but the way we account for them overstates their heft

by 20-50%. For example, both borrowing and lending are considered productive businesses, and their numbers pad GDP both ways, using the same funds. Coyle stays focused, giving us an overview that is understandable (as well as frustrating). She does it by structuring her book as history, showing how economies and GDP have evolved over eras.

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