

# GDP's Wicked Spell



Tim Cook for The Chronicle Review

By Dirk Philipsen | JUNE 15, 2015

*The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.*

—John Maynard Keynes

**M**ost important political debates today happen in a bubble defined by a common assumption:

Economic growth is good. More than good, it is essential. Economic health, success of governments, importance of education, meaning of life, the very idea of progress — you name it, pundits from right to left argue inside the bubble.

In newspapers of record, on TV and radio, in blogs and tweets, the refrain remains the same. Economic growth is described in terms reminiscent of a sermon to the faithful, "as if it were handed down from god on tablets of stone," as Michael Green of the Social Progress Imperative put it. Confident consumers engage in strong spending that leads to robust growth, all resulting in a healthy economy.

Of course economies don't grow like trees or little children. What do we mean by economic growth? It is an important question. It is almost never asked. The answer surprised me as much as others who have explored it: The way growth is measured around the world depicts the amount of production and consumption. It does not measure useful activity or human development. It does not measure sustainability. In fact, the well-being of the planet is entirely absent. The possibility for future generations to thrive once we're gone is not a line item in our accounts of economic success.

It's an astonishing reality: We inhabit a world built around mindless growth. Mindless because there is no deliberation, no conscious purpose. On the contrary, the spell thrives on an assumption that carries the noteworthy distinction of being (1) enormously powerful, (2) deeply internalized and thus nearly invisible, (3) defying logic, yet still (4) defining economic activity and, thus, increasingly undermining prospects for future generations.

The basic premise is that the more we turn life into commodities — trees into two-by-fours, fossils into fuels, atmosphere into carbon dumps, lakes into resorts, land into parking lots, human skills into labor, conversation into chats, childhood into advertising bonanzas, education into investments — the better.

That growth is gauged by one little big number — Gross Domestic Product, or GDP. Everyone has heard of GDP, few know its origins, fewer still what it entails, or how it fundamentally shapes our lives. Even accountants are sometimes befuddled by its arcane logic.

Its origin story matters. During the depths of the Great Depression, no one knew exactly how bad things were. How many people were unemployed? How many businesses had collapsed? What had happened to investments and income? Pushed by a few politicians like Sen. Robert La Follette Jr., Congress finally established a committee to seek information vital to moving people out of poverty and despair. Under the leadership of Simon Kuznets, a group of economists produced a first-ever detailed report on the state of the economy. The forerunner to GDP, it effectively pulled economic policy making out of the dark ages. The prominent economists Paul Samuelson and William Nordhaus called GDP "one of the great inventions of the 20th century," and that was no exaggeration.

Policy makers subsequently wielded GDP as a key weapon to defeat fascism in World War II. By providing critical information on national investment and production, it allowed the Allied powers to outproduce the Axis in military equipment without crippling the civilian economy. Without doubt, GDP deserves to be acknowledged as a central problem-solving device to that era's depression and world war.

Soon after the war's end, however, the problem-solver became a problem. Under the leadership of the United States, GDP rapidly morphed from descriptive metric to prescriptive target — from measure to goal. Through regulatory mechanisms newly designed at Bretton Woods and the United Nations (the World Bank, the International Monetary Fund, and an international System of National Accounts), growth defined by GDP became the pre-eminent goal of national policy making. It's as if the doctor, observing the starving patient, correctly prescribed a diet of higher calories before — quite mindlessly — making an exponential increase in calories the primary goal of medical care going forward, in perpetuity.

The consequences were momentous: GDP effectively replaced political deliberations about the purpose and direction of economic activities. It became the one-stop altar at which people from right to left prayed for deliverance from political instability, renewed global depression, and poverty.

China became fixated on GDP in the 1970s. By the time the Soviet empire imploded in 1991, the GDP regime had taken firm control of all major world economies. From Beijing to Brasilia, and from Moscow to Washington, decision makers had pledged allegiance to it. Most likely, no system, no logic, has ever been as powerful, or as universally entrenched.

This is not to say that significant differences between countries and cultures don't continue to exist, or that political debates have ended. But sanctioned conversation happens almost exclusively within the confines of the GDP spell. A headline such as "Robust Economic Growth Threatens Global Well-Being" is difficult to imagine precisely because our dominant thinking equates growth with progress, not decline.

Inside the bubble, debates continue. What is the proper role of leaders in pursuit of an ever-higher GDP? Should government promote and facilitate innovation and growth, or should those be left to the market? What are the effects on growth if the economy is owned by a small group of people who are largely oblivious to the safety and welfare of others? In light of mounting environmental threats, what technological

**Both left and right pray to GDP for deliverance**

breakthroughs hold promise to bail us out? Should we worry less about racism now that the largest economy is led by a black man even though so many down and out, still, are people of color? Above all, since our paychecks, investments, government budgets, and pensions depend on the economy charging ahead, how do we keep it from slowing into stagnation and recession?

**from political instability and poverty.**

These and many other related topics are variously studied, debated, and voted on. And they result in noteworthy differences between countries like, say, Denmark, China, and the United States. Some GDP regimes are outdated, smoke-belching monsters running on coal, others sleek aerodynamic wonders of modern technology with solar panels on top. Some are pleasant and clean and provide a basic level of comfort to all. Others are dirty and violent, with many citizens living in squalor and poverty.

But in all cases, the goal is the same: continued GDP growth.

**T**he key question is missing from the conversation: Where is GDP growth taking us? Despite the logical impossibility of infinite growth on a finite planet, policy making remains hitched to the imperative of expansion.

Imagine the president of the United States calling for an end to growth. It's almost unthinkable. The very idea seems preposterous. Why? Because GDP is far more than just the world's dominant measure. Today it represents the very operating system of modern economies — the code that defines what an economy is. If something is not measured by GDP, it's not part of the official economy. Volunteer work or family life count no more toward the economy than social aspirations, happiness, or a healthy ecosystem.

"If you define the goal of a society as GDP, that society will do its best to produce GDP," the environmentalist Donella Meadows observed. "It will not produce welfare, equity, justice, or efficiency unless you define a goal and regularly measure and report the state of welfare, equity, justice, or efficiency." We pursue what we measure.

Things not measured inevitably become cultural orphans — discussed in houses of worship, think tanks, or at family dinners, but largely irrelevant to the hard realities of policy making and the bottom lines of businesses. Robert F. Kennedy already noted in

1968 that a nation's production figure "measures everything ... except that which makes life worthwhile."

If one is feeding a starving patient, not considering the food's quality or purpose might make sense. It makes considerably less sense once that patient is overfed and suffering from clogged arteries, stressed joints, and hypertension. Even in the short-term, economic growth has started to generate more negatives than goods. Increasingly, exponentially accelerating output leaves behind "furrows of wreckage," to use the journalist and author William Greider's phrase. "Anyone who believes in infinite economic growth on a finite planet is either a madman or an economist," quipped Kenneth Boulding.

If humanity is to avoid crossing irreversible thresholds of climate change, resource depletion, and community disintegration, we have very likely reached the end of the GDP track.

The existential contradiction becomes apparent in headlines. On one side, daily reports on how best to pursue robust growth; on the other the occasional, though increasingly dire, reports of climate change, inequality, and warnings by scientists about the existential need to slow down — growth as necessary vs. growth as impossible. Strangely, few news editors ever connect the dots.

Meanwhile, many good ideas that could help lead us out of this morass are routinely dismissed as unrealistic. This is both tragic and ironic, for the only thing that is demonstrably unrealistic is the faith with which decision makers stubbornly subscribe to continued GDP growth.

**T**he sublime promise of industrialization and capitalism was that it would conquer scarcity, that it would provide people around the world with culturally specific versions of a chicken in every pot, an iPhone in every hand. Growth in wealth would translate into development, general prosperity, and human well-being.

In this respect, capitalism has succeeded, and failed, spectacularly. No system in history comes close to the amount of wealth and freedom created. No other system can match its destruction, real and potential. So far, the beneficiaries of wealth have rarely had to deal

with the destruction. But as inhabitants of a common planet, we are all now threatened.

In hindsight, we can say that even as communism (that other growth-based economic model) crumbled, capitalist growth revealed itself to be a devil's bargain. Yet while the communist experiment collapsed — in part choking on its own inefficiency, waste, and pollution — the GDP regime continues to dominate policy making. Marking the end of the Cold War, some peddled it as the only model left, "the end of history," as Francis Fukuyama put it. Today the GDP-growth regime defines modern globalization.

In 1987, the World Commission on Environment and Development, better known as the Brundtland Commission, issued an international call for an urgent change of course. Noting the inherent conflict between globalized economic growth and the accelerating ecological crisis, it asked the world community to commit to a fundamental course correction, away from simple growth and toward "sustainable development" that "meets the needs of the present without compromising the ability of future generations to meet their own needs."

Three decades later, it is time to take stock. How much closer are we to the goal of sustainable development?

Since 1987, population has almost doubled, from 3.9 billion to roughly 7 billion. Also doubled, despite great improvements in efficiency, is the use of nonrenewable resources like oil, coal, and gas (the average American, in 2014, used an astonishing 9.3 liters of oil a day, every day). CO2 levels in the atmosphere have steadily increased by about 1.5 parts per million per year, from 330 parts per million in 1972 to over 400 in 2014 (most climatologists believe that anything over 350 is suicidal). The amounts of slow-to-decompose wastes are mounting, pristine forests are disappearing, glaciers are melting. Biodiversity, meanwhile, is under siege — we are on a path toward mass extinctions.

All these and related trends were, and are, a direct result of GDP growth. Throughout the last century, material throughput (input of natural resources, output of waste and

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pollution) has grown with increases in population and GDP (despite higher efficiency in the use of nonrenewable resources).

And it's not only the environment that is suffering. Across the board, measures of well-being have started to decline.

Inequality between and within nations is increasing, the young are facing diminishing opportunities, and the ability of national governments to steer policies is suffocating under crushing national debts, overpowering corporate control, and the needs of military and security apparatuses often employed to safeguard the growth regime.

None of this meets the most basic criteria of either sustainability or human development.

And yet, some of the best and brightest minds still dedicate their careers to the continuation of GDP growth. In politics, debates tend to be as narrow as they are predictable. What works best to promote growth? Austerity measures or public programs? Deficit spending or limiting debts? Higher wages for workers or tax breaks for businesses? Businesses ask what new gadgets or apps can be concocted to be the latest addictive consumer craze? How can we sell more calories to the morbidly obese patient?

As a metric, GDP was intentionally set up to measure only aggregate market exchanges — money changing hands. Natural or social capital were not line items, for nature and people appear in market transactions only as monetized commodities. Goods and services without price disappear. Negatives like pollution, toxic waste, and adverse health impacts are not counted at all. Although, strangely, the production of offshoots from these negatives — pollution cleanups or security systems guarding against burglary of our consumer items — do count as goods. Inequality is no more a category than quality. Or purpose.

All this made sense when GDP was created as a tool with a very specific goal: getting a concrete understanding of how extensive the Great Depression in the 1930s actually was, or figuring out how many B-29 bombers the United States could manufacture before the

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next attack on Hitler's Germany. It makes a good deal less sense today. From the perspective of future generations, today's GDP is a classic case of accounting without accountability.

**I**t is a lot to take in, this recognition that the primary economic indicator is driving us off a cliff. After one begins to sift through the implications, it is normal to ask whether we could, perhaps, simply replace the faulty measure of GDP with a better gauge. Perhaps then we could hold on to the idea of growth. Why not pursue growth that follows a smarter logic than GDP? Can't we grow in ways that are both sustainable and socially desirable?

The motivation behind such a question is understandable, given persistently high levels of poverty and existential insecurities around the world. For ethical and practical reasons, most people want others to have good lives. Yet it is equally obvious that indiscriminate growth doesn't ultimately help the poor or the rich as it guzzles resources and ruins the planet for all of us. The challenge most likely goes beyond overcoming GDP as a mindless measure of aggregate output. Economic growth in general, as the representation of turning the ecosystem and its life forms into sellable goods and services, is logically tied to material throughput. By definition, it cannot be sustainable.

Despite claims by some highly credentialed scholars, there is actually no evidence, no available model, of an absolute decoupling of economic growth and material throughput. In the clear language of the ad executive turned activist Jerry Mander, such growth would require "an expanding resource base and its continuous transformation into commodities." That's not possible to sustain. On the contrary, it adds up to what the former World Bank economist Herman Daly called an "impossibility theorem."

Such a realization should, one would think, necessitate a fundamental transformation. "As the laws (not theories) of thermodynamics tell us," John Fullerton, a former managing director of JP Morgan, reminds us, "perpetual material growth on a finite planet is biophysically unsustainable. Reliance on technology to achieve ... decoupling (more aggregate growth with less absolute throughput, every year, forever) is hubris."

And there is another stark reality: Growth built on depletion, obsolescence, inequality, and waste can produce more poverty than it alleviates. Growth by itself can never be a good indicator unless we ask, What are we growing? And for what purpose?

Until now, such questions have been implicitly answered through an imperfect system of supply and demand. The collision course forces us to think: What would a smarter system look like? We might begin with measures that reflect what people need and want. Many policy makers could make use of increasingly sophisticated knowledge about things like ecosystem degradation, cradle-to-cradle (holistic) production, social-progress indicators, or the stability of complex interconnected systems and communities. A few economists are beginning to advocate for maximizing human capacities and freedom in a "smart economy," not just more throughput.

To develop such measures, local, national, and global communities need to open a sustained, deliberate, and democratic public conversation on what it is we want to produce, and to what ends. As a historian, my job is to show the specific steps of how we got to this place. Those who are adept at convening deliberate civic conversations need to pick up the thread to help us develop new goals; then economists and accountants can help us redesign metrics to achieve those goals.

The direction of economic activity has to move from growth to development, from more to better, from indiscriminate to smart, from the goods life to the good life. We may then discover that universal human needs — for strong and sustainable communities, for the expansion of human capacities and meaningful work — can be realized only once we break the spell of the little big number.

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