



GDP: A Brief But Affectionate History

Diane Coyle

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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.

GDP: A Brief But Affectionate History Details

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Nandakishore Varma says

I must say that this entity has always intimidated me a little (maybe because it resembles DGP - "Director General of Police" - I've always had an unreasonable fear of the gentlemen in khaki): or maybe because I don't know what the hell it means. All my politically and economically erudite friends use it left and right (pun intended) to prove that the government is doing well (if the party they support is in power) or the government is a mess (if their opponents are in power). In such situations, I nod my head sagely, try not to look too foolish, and slowly sidle away from the conversation.

But no more! Diana Coyle has explained very clearly what is meant by the GDP, and now I can talk intelligently about it... er, well, reasonably intelligently... or, again, maybe not...

Don't get me wrong. This is an excellent book, very short, concise and clear. It explains the concept of GDP, how it can be measured, what it is good for, and what are its limitations. I tried to wrap my head around these concepts, but got totally lost when the author came to the section about financial services: I could not make out what is a product and what is expenditure, or whether these terms have any meaning when the product is just a number on a computer screen, like share prices.

But I took away one thing very clearly - **GDP does not measure welfare!** So a high GDP does not necessarily mean the people of a country have it good! Well, put that in your pipe and smoke it, you apologists of market economy and capitalism!

(To be expanded further when I get time.)

Laurent Franckx says

There are few concepts that are discussed so often (certainly in the press) and are so poorly understood as GDP. While some people attribute almost fetishist powers to GDP, others criticize it as completely irrelevant. In most cases, this is because they don't understand what GDP is actually measuring or because they want to use it for something it wasn't designed for in the first place.

In this beautiful little book, Diane Coyle sets things right. She explains the history of the concept, clarifies what it measures, discusses the practical issues related to estimation and evaluates the numerous criticisms. All her points are well informed and balanced.

Actually, I think this is a masterpiece of economics writing for a broad audience. It is clearly and beautifully written, but does not shy away from very advanced issues such as Martin Weitzman's idea that, conceptually, GDP should measure the share of wealth that we can consume without decreasing future consumption. As such, it sets a standard in the field. (For clarity: personally, I haven't learned much of substance in the book but then I hold a PhD in economics. If I would have to teach undergraduate students again one day, I would impose this book as required reading).

Everybody who wants to have an informed say in public affairs should read this book.

mukda teeralertpanich says

GDP ???????

Riku Sayuj says

The Mismeasure of "Progress": A Race to the Bottom?

This is a quick history of macroeconomics, dressed up as a history of GDP. It does cover the initial struggles of measurement, standardization etc, and also covers the modern debates over the efficacy of GDP/GNP as a useful aggregate measure. But in the end it is just a very compressed history of the evolution of macroeconomic ideas - primarily because the measurement tools of any science will closely follow the ideas that create the imperative to measure in the first place.

GDP: History's Puppet

One interesting thing to note is that it was always crises that led to adjustment in measuring:

The need to pay for the World Wars made us realize the need to quantify the economy better. It was the experience of the Great Depression had already naturally focused political attention on how fast—or not—economic output was growing, and governments wanted both to measure and to influence it.

Economic crisis has always been trigger for interest in alternative measurements. The combination of the Great Depression and World War II brought us GDP in the first place. The crisis of the mid-1970s combined with the nascent environmental movement to prompt an initial wave of interest in new types of indicator, although these took a decade or so to come to fruition.

The present crisis has breathed new life into a range of alternative approaches such as “happiness,” welfare indexes, and dashboard approaches, not to mention raising a serious question mark over the current standard method for calculating the contribution financial services make to the economy.

Is this crisis (or this cascade of interacting crises) the time for leaving behind GDP and turning to some new way of understanding and measuring “the economy”?

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Which brings us to the following discussion on what could happen if we fail to adjust GDP to reflect the new crisis and the urgent requirement to orient our economy better by measuring it better.

Standards-Lowering Competition: A Race to the Bottom?

As Herman Daly? says in his 'Ecological Economics':

At the same time that international trade agreements make it difficult for countries to legislate against externalities, the need to compete for market share reduces national incentives to legislate against externalities in what is known as standards-lowering competition (a race to the bottom).

The country that does the poorest job of internalizing all social and environmental costs of production into its prices gets a competitive advantage in international trade. More of world production shifts to countries that do the poorest job of counting costs—a sure recipe for reducing the efficiency of global production. As uncounted, externalized costs increase, the positive correlation between GDP growth and welfare disappears or even becomes negative.

Recall the prescient words of John Ruskin: "That which seems to be wealth" becomes in verity the "gilded index of far reaching ruin." The first rule of efficiency is "count all the costs," not "specialize according to comparative advantage."

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The continued use of GNP/GDP as a proxy for welfare should remind us of the quote often attributed to Yogi Berra:

“We may be lost, but we’re making great time.”

Ray LaManna says

This short book tells you everything you ever wanted to know about the statistical underpinning of the measure of Gross Domestic Production... good description of the various controversies related to this measure.

Oleksandr Zholud says

GDP is maybe the most widely used macroeconomic statistics, but even for many economists it is a black box. The book gives the brief history of what is now called the system of national accounts, talks in depth on changing definitions and how they affect the final figure. How to account for services? What if the quality of the product changed? Can we really compare Swaziland and Switzerland? What is the value of Google search or Wiki? Will the GDP be replaced with gross happiness index or other measure? These and other questions answered in a form of easily readable (thus a bit dumbed down) book.

Jason Furman says

“GDP: A Brief but Affectionate History” lives up to its name in every respect. Diane Coyle situates the story of the development of GDP in the history of the actual economy and economic attitudes of the last 250 years. In particular, she emphasizes that GDP is not a natural concept but one that was constructed and the construction has evolved over time to include services (originally thought to be unproductive by Adam Smith and, as late as the 20th Century, the Soviet Union), the government (which became important in the 1930s), financial services, R&D and other intellectual property (in the United States) and illegal goods like drugs and prostitution (in Europe).

Coyle also evaluates the many criticisms of GDP, endorsing some tweaks (e.g., reducing the valuation of financial risk taking, reflecting natural resources depreciation, and doing a better job tracking home production) but rejecting wholesale replacement of the concept with something like happiness or other welfare measures. Because, as she argues, GDP is not a measure of welfare but of production—albeit with somewhat arbitrary boundaries for what constitutes production.

Coyle is affectionate but not uncritically in love as she worries about the increasing difficulties of valuing the explosion of varieties and customization and free goods as the economy becomes increasingly intangible oriented. This discussion was one of my few quibbles with the book because she was uncharacteristically uncritical in reporting the various measures of underestimated productivity without a fuller discussion of some offsetting factors (e.g., cannot just value the internet but also need to factor in reduced time on other mediums), the ways in which the measurement issues are not entirely new (e.g., radio and TV were a free goods too), and some of the evidence that mismeasurement may have declined recently. I also wished she had included some discussion of noise in GDP measurement and alternative measures of the size of the economy, like Gross Domestic Income (GDI).

Overall, I highly recommend the book. Economists and other already proficient with the concept of GDP may be able to skim some of the more elementary material but I, at least, learned a lot from this lovely little book.

Meg says

This is a great brush up on the history of GDP. I agree with Coyle's points that household production ought to be counted toward GDP (and I appreciate her expert opinion that there is no good reason why it is not counted), that financial services are overvalued and that we need an on-going measure of sustainability, preferably built into GDP.

She could have discussed more directly and in more detail whether GDP growth needs to be at the expense of the environment. Additionally, she was too disparaging of the environmental movement in the 1960/70s - in the past environmentalism has led to profound policy changes, like the US's clean air act and superfund act, and that Ehrlich lost the commodity bet to Simon is only half the story - since then, commodity prices have increased.

Finally, I was disappointed that GDP growth vs. trends in inequality was not discussed more.

D?nnis says

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Boris Limpopo says

Coyle, Diane (2014). GDP: A Brief But Affectionate History. Princeton: Princeton University Press. 2014.
ISBN: 9780691156798. Pagine 168. 11,54 €

Di Diane Coyle avevo comprato nel 2007 un altro libro, A Soulful Science, di cui riferisco in un altro post.

Questo è un libro discontinuo ma comunque interessante, in un periodo in cui il dibattito sul PIL è più vivace che mai.

A parte una brevissima introduzione – che prende le mosse dalla crisi di credibilità della statistica ufficiale greca – il libro è articolato in 6 capitoli, ordinati in una prospettiva storica, dagli albori del calcolo economico nel XVIII secolo al futuro.

All'inizio ero abbastanza entusiasta, tanto da aver suggerito a un amico editore di prenderlo in considerazione per una traduzione italiana, nel caso in cui i diritti non se li fosse già accaparrati una major.

Conosco abbastanza bene la storia del PIL e della contabilità nazionale, per passione (eh sì, ci si può appassionare anche a questo!) e per motivi professionali, e – a parte qualche divergenza su singoli punti o su accentuazioni diverse che avrei dato a vicende o a dibattiti particolari (per esempio, è abbastanza evidente il punto di vista britannocentrico dell'autrice) – ho trovato la “narrazione” di Diane Coyle accurata e scorrevole al tempo stesso.

Quelli che mi hanno lasciato più perplesso sono i capitoli centrali, dove l'autrice mi sembra abbastanza schierata ideologicamente in campo anti-keynesiano e neoclassico sotto il profilo economico e thatcherian-reaganiano sotto quello politico. Il che è ovviamente lecito, ma (a mio parere) è inopportuno in un testo esplicitamente divulgativo, che dovrebbe avere come obiettivo principale quello di fare comprendere gli sviluppi della teoria e della pratica della contabilità nazionale, e non di dare giudizi sui movimenti studenteschi e sindacali degli anni Sessanta e Settanta, come fa in questi due passi, ad esempio:

It is not poverty and despair that cause revolutionary activity in modern times, but rather comfortable prosperity. Skipping school to hurl stones at the riot police and evade tear gas is a luxury indulged in only by young people who are not really worried about finding a job when they need one. Likewise, one can afford to experiment with drugs, free love, personal liberation, and self-discovery only in a prosperous economy. [p. 61]

[...] the left-right divide grew bitter in the 1970s. The liberation movements emerging from the individualism of the previous decade were increasingly angry, occasionally even violent. Revolutionary politics were fashionable—one of the best-selling posters of the era, adorning many student walls, was the iconic black and red image of Che Guevara. Academics dived down the long dead end of Marxist-inspired critical theory, only now fizzling out in university departments. Organized labor became far more militant. There were more and more strikes, even in the far less militant United States. In fifteen industrial countries other than the United States, the number of days per worker lost due to strikes was 1,641 in the 1960s, 2,586 in the 1970s, 1,632 in the 1980s, and a mere 658 in the 1990s. These helped bring about the Reagan and Thatcher victories, and the subsequent policy reaction, including tough restrictions on the right to strike. But that, again, uses hindsight. For a decade, it looked as though the capitalist system was the one that was broken. [p. 68]

Più avanti il libro si rimette in carreggiata e l'ultimo capitolo, quello sulla prospettive future del PIL, è una presentazione aggiornata e fedele dei problemi e del dibattito attuali.

* * *

Un errore e una curiosità.

Un brutto svarione a p. 41, dove l'autrice annovera la Spagna tra i paesi sconfitti nella II Guerra mondiale.

Bill Phillips, l'economista neozelandese padre della famigerata curva di Phillips, che postula una relazione inversa tra tasso di disoccupazione e tasso d'inflazione, è anche l'inventore del MONIAC, un modello idraulico del funzionamento del sistema economico. Ne esistono un prototipo (attualmente all'Università di Leeds) e una dozzina di copie. Qui sotto vedete quella della banca centrale neozelandese.

[wikimedia.org/wikipedia/commons](https://commons.wikimedia.org/wiki/Main_Page)

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Qualche altra citazione (per questo libro ho le pagine e vi do quelle):

[...] from the nineteenth century, people were starting to reconsider how to measure the economy precisely because it was starting to grow, thanks to the Industrial Revolution and the dawn of capitalism. [p. 12]

Even in those depressed times the report was a bestseller, at twenty cents a copy, and the first print run of forty-five hundred copies quickly sold out. [p. 13: si sta parlando del rapporto di Simon Kuznets]

[...] an evil necessary [...] [p. 14: sempre Kuznets]

By 1950, it was in mass production and its price had fallen to four cents a dose, the same as one-sixteenth of a gallon of milk.³ It was not just that this flood of innovations existed but that so many people could afford them. As the economic historian David Landes observed, Nathan Meyer Rothschild, the richest man in the

world of his time, died in 1836 for want of an antibiotic to cure an infection.
This is what GDP growth consists of. [p. 63: si sta parlando della penicillina]

(How real or durable that catch-up has been is an open question at the moment, in the aftermath of the financial crisis.) [p. 72: si sta parlando dei PIIGS]

Studies of businesses investing in computer and communications equipment in the United States in the 1990s and 2000s indicate that without restructuring the business, productivity gains are small. But those that do restructure experience very large improvements in productivity. [p. 82]

A better metric than the size of the economy might well be the variety of goods and services available. [p. 91: condivido questo punto di vista]

In principle, GDP avoids the need to distinguish productive from unproductive because it measures what people pay for, and their willingness to pay can be taken as an indicator of productive value (although of course there might be alternatives to money as a measure of value). [p. 104]

“This treatment, whereby commercial products are valued at market price, government services are valued at cost and unpaid household activities are simply ignored, is not a matter of principle but of practical convenience. It can be defended, therefore, only on practical grounds.” [p. 105: è una citazione di Richard Stone]

“[...] a single measure or unit of value.” [p. 110: secondo Michael Sandel il peccato originale del PIL; secondo me, il suo grande punto di forza] [...]

Bhutan is one of the poorest and one of the more authoritarian countries in the world. [p. 112]

Simon Kuznets, working on measuring national income in the 1930s, wrote:
«It would be of great value to have national income estimates that would remove from the total the elements which, from the standpoint of a more enlightened social philosophy than that of an acquisitive society represent dis-service rather than service. Such estimates would subtract from the present national income totals all expenses on armament, most of the outlays on advertising, a great many of the expenses involved in financial and speculative activities, and what is perhaps most important, the outlays that have been made necessary in order to overcome difficulties that are, properly speaking, costs implicit in our economic civilization. All the gigantic outlays in our urban civilization, subways, expensive housing, etc., which in our usual estimates we include at the value of the net product they yield on the market, do not really represent net services to the individuals comprising the nation but are, from their viewpoint, an evil necessary in order to be able to make a living (i.e., they are largely business expenses rather than living expenses). Obviously the removal of such items from national income estimates, difficult as it would be, would make national income totals much better gauges of the volume of services produced, for comparison among years and among nations.» [p. 114: ben prima di Robert Kennedy e molto più lucido]

The economist Martin Weitzman proposed using Net National Product (NNP), which he showed was the yield generated by the economy’s stock of capital, and therefore indicated the maximum sustainable rate of consumption. If it is less than actual consumption, then society has been living beyond its means by using up capital. [p. 117]

To be poor is to have little choice available, and the increase in possibility is the most important aspect of escaping from poverty. On this view, economic development is a combination of increasing individual

capacities or skills to be able to take advantage of opportunities, and increasing the range of opportunities and choices available. Economic development is an increase in freedom. One aspect of this is the variety of goods and services available in the economy, from the trivial to the profoundly important. [p. 123]

Price indexes do not, however, capture the large price declines when outsourcing occurs, so import prices have been greatly overstated and import volumes underrecorded. [p. 125]

Generally any task that can be measured by the metrics of productivity – output per hour – is a task we want automation to do. [p. 128: è una citazione di Kevin Kelly]

Athan Tolis says

The aim of this book is to get across a bunch of messages about GDP

1. It was invented to help measure the ability of a state to wage war
2. As such, it's rather good at measuring physical production
3. It's as good as useless at measuring stuff that has no market price
4. It's rather terrible at measuring services
5. It tends to catch up slowly with positive developments that are difficult to quantify
6. It currently understates how well we're doing because we benefit from a number of novel consumer surpluses
7. It overstates the contribution of finance, which affords the authorities an excuse to favor financial institutions
8. Regardless, it's better than the alternatives if you had to sum up in one figure if we're doing better or worse than before

In terms of making these points, the book is a triumph. But it's not "engaging and witty" as it says on the cover.

And it is not in the least technical. The most complicated equation in here is the good, old $AD=C+I+G+(x-m)$. I was kind of hoping to find out about annualizing quarterly GDP or the effect of a surprise in April inputs versus a surprise in June inputs on Q2 numbers. Or a worked example of how to build it for one quarter. Or a comparison of its composition through history. Dunno, something about how agriculture is no longer as important as it once was. Or a comparison between G7 countries and developing countries. You won't find any of that here. The only technical discussion (without the math) is about converting Chinese GDP into western-equivalent GDP via PPP and its alternatives.

It's really for the layman, basically, except I'm not 100% sure that it's simple enough for the layman.

That said, it kept me good company in the tube and it opens the discussion with an anecdote from my country, so I'll award it 4 stars.

Pat Hornchaiya says

The book shows how GDP has been developed over the time. This raises a question that when our economic structure is changed, how we calculate GDP to truly reflects it (e.g. innovation, environmental impact, household work). Otherwise, we might have to use other indicators for measuring our development.

John says

"GDP: A Brief But Affectionate History" by Diane Coyle is a short, well-written, interesting book that ultimately disappointed me for three reasons.

First, as other reviewers have noted, the book really is a concise, narrative history of macroeconomic history instead of a tightly focused discussion of GDP. While the evolution of the GDP measure is inextricably intertwined with the evolution of macroeconomics during the 20th century, the measure has its own nuances. Coyle does point out expertly many of the particular features of the GDP measure and the larger system of national economic accounting, but she doesn't treat many of them in much depth. Yet the attention to the details of GDP detracts from the larger history of macroeconomics, which makes the book a little bit of both but not enough of either.

Second, the book seems to lack a clear audience. The narrative approach employed by the author seems to be designed to attract educated lay readers, yet the discussion sometimes feels too technical for those readers. At the same time, the lack of detail is apt to make the book too general for more knowledgeable readers. So again, the book seems a bit betwixt and between.

Lastly, towards the end of the book, Coyle comes across as a stereotypical two-handed economist. She points out many of the limitations of a measure designed for an economy characterized by industrial production in measuring an economy centered on the provision of services. Yet she never really points out any solutions and is quite critical of recent attempts to offer better measures, particularly measures that try to account for human welfare and environmental sustainability. Instead, the book ends with some general calls for collecting better data and "rethinking." Coyle may be right that GDP still is the best measure in a sea of limited alternatives, but the book simply ends on an unresolved, unfulfilled note.

Hadrian says

The term GDP has taken an almost totemic importance in economic discussions. A quarterly percentage change in GDP it can broker the outcome of elections, and other times it can determine whether nations are 'developed' or 'undeveloped'. Coyle's aim in this volume is to take a short history of the concept, and compare it to alternative methods of measuring a national economy.

This is a short book, and should be treated as an extended introductory essay. For the sake of convenience, Coyle only uses one equation - the Macro 101 standard of $Y = C + I + G + (X - M)$, or GDP equals Consumption + Investment + Government Spending + Net Exports.

Coyle describes previous attempts to measure national economies, and continues to the first measure of the GDP during the Great Depression and early 1940s, as a measure of a country's war-making capacity. As such, it was a passable measure for the time.

However, Coyle introduces various challenges to GDP in a rough chronological order - first the stagflation crises of the 1970s, then environmental effects, then 'happiness' or 'quality of life' indices. Most recently, this includes the service sector of the economy, and the intangible services produced from the internet. Most tellingly, such a vital index is also prone to manipulation - a major example of this were the Soviet statistics during their great stagnation. Or to take an even older example from Samuelson - who adds value to a multi-stage product?

All of this culminates in Coyle's thesis that GDP is flawed on multiple counts, and that current alternatives are not yet specific enough to replace them.

I should also add there is a light treatment of the continuing 'happiness' and 'quality of life' debate, and there are multiple papers worth citing on both sides that are ignored, but this works as a charming and qualified introduction to the topic.

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