

Kelly Brownell:

Welcome to Policy 360. I'm Kelly Brownell, Dean of the Sanford School of Public Policy at Duke University. My guest today, Dirk Philipsen, has been questioning the way in which we measure the health of a country's economy. The GDP, or gross domestic product, has become the universal yardstick of progress. GDP judges the value of goods and services produced inside a country's borders, but the number has a big problem. It only judges output. More car production, for example, would seem on the surface as a success, but at what cost? Dirk Philipsen's book is called Little Big Number: How GDP Came to Rule the World and What we can Do about It. Welcome to Policy 360, Dirk.

Dirk Philipsen:

Thank you very much.

Kelly Brownell:

First, you tell an interesting story in the introduction to your book about how you first began to question the idea of GDP. It started with a grad student. Tell me about that.

Dirk Philipsen:

So this is really a story about assumptions. I have a degree in economics, and so for many, many years, I had learned how we think about the economy and how we measure its performance. And so this is a course that I was teaching on the history of capitalism and the graduate student, at some point, just simply asked, "How do we know we're on the right track?" And I said, "Oh, easy." And then I gave this sort of standard pat answer. And as I was doing so, I quickly realized that this is really a bad answer. And so why is it a bad answer? It's a sort of along the lines of, if you want to figure out the health of a community and you go, let's say, to the police chief and the police chief says, "Last year, activities in those communities were up 15%," what would you say?

You would say, "What does that mean? Which activities?" Is it that more kindergartens were built and more people had jobs or is it that more accidents happened and more drugs were sold? And GDP makes no... That does not in any way differentiate between all of these different kinds of things. And so in a nutshell, I think I realized that we needed to give young people a better answer. And so then I did what professors do. I looked at research and I thought, "This is a really important question. There must be tons of research out there and books written on this measure and what alternatives we could use," and so on and so forth. And I realized there was not a single one, not a single history on where this thing came from, when we decided to follow this metric or any of that.

And to just sort of give you a sense for the magnitude of this, as an historian, I cannot think of a single value or ideology or idea that is as universal as the idea that we need to grow GDP. There's not a single country in the world, vigorous of all rich or poor, that does not follow this one metric.

Kelly Brownell:

So what does GDP measure?

Dirk Philipsen:

So it measures output. It doesn't measure anything that happens outside of the market. It doesn't differentiate between costs and benefits. So in that sense, sometimes, people say it may not be a good measure for welfare, but it's a good economic measure. I would argue that it's also a very deeply flawed economic measure. I mean, as you know as Dean for instance, if you were to... We just talked about it

this morning, if you took your endowment and you started paying people out of that endowment, what would happen at some point? We would literally run out of money, but that's exactly what we do, for instance, with natural resources. So when we extract oil, we don't subtract that from the income. We actually add it to the income. To something like pollution, for instance, is absolutely the perfect thing for GDP, because pollution adds to GDP by being the by-product of production. And then it pollutes things that we then need to clean up, which adds to GDP a second time.

Kelly Brownell:

And so a company selling lots of cigarettes around the world would look good on a GDP indicator, but it wouldn't take into account the death and disability that those products cause?

Dirk Philipsen:

Correct.

Kelly Brownell:

Okay. So how did it come to be such a universally accepted barometer of success and progress?

Dirk Philipsen:

Essentially, GDP is a metric that came out of The Great Depression. So by 1933, things are still getting worse and worse and worse, and people begin to go like, "Whoa, what's going on here? How do we fix this?" And politicians, who up to that point in American history had really played a minor role in economic policymaking, began to feel like they had a responsibility to use government in order to make a difference and positive difference. But what they quickly realized is that they had no economic data that they could rely on. By 1933, we literally had no clue how many people exactly were out of job, how many banks, how many businesses had gone bankrupt, we didn't know. And so what they did is they put together a team of economists and accountants who just simply did the legwork of trying to figure out, "What is happening in our economy and where is it happening?"

And then it really took off during World War II because it was these people who now knew exactly how the economy works and where the people are and where the money is and where the resources are who then allowed military planners to be much more efficient in revving up the military machine in the US than they were in Italy or Japan or Germany. And so many economists now think that those people were as significant to the US winning the war as military strategy and the nuclear bomb and all of those things combined. And then you fast forward to the end of the war. And you suddenly have a world economy that is once again in the thralls of a depression, and we still don't know how to get out of it other than through a war.

And what essentially happens is that we realize... Or that economic planners realize that the way out would be the growth of the economy, GDP growth. It's more money, which gives possibly more income to workers. It gives more tax revenues to governments. It gives more profits to businesses and so on and so forth. And it has a very wonderful side effect, which is that by doing so, we can avoid asking all the difficult questions about race, about gender, about inequality, about all of that. Because as long as the pie gets bigger and the slices get bigger, people will be presumably happy and content.

Kelly Brownell:

So tell me, what are the alternatives?

Dirk Philipsen:

So by my last count, there are probably about 130 or so roughly initiatives around the world right now of people trying to figure it out better and different metrics. These alternatives, what they have in common is that they try to take into account social progress, wellbeing, sustainability, the environment, all of those kinds of things.

My favorite among the 130 is something that is called the genuine progress indicator, functions in very much the same way as GDP in that it monetizes everything and comes up with a single figure. But it adds an element that is absolutely critical, which is a distinction between good and bad. So the oil spill will not be counted but whatever, the new iPhone will be counted. The depletion of resources as a minus will not be counted. And the production of something good will be counted.

Kelly Brownell:

Is this new approach getting any attraction?

Dirk Philipsen:

So Vermont and Maryland, for instance, have officially adopted it. But it basically is just something that now is being put together. I mean, they keep a tab on it, but it still doesn't really inform policy making. So the biggest problem is not that people don't realize that we need to go beyond GDP. The biggest problem is that GDP is so deeply entrenched in everything we do, including economics and the way economics is taught, that nobody can even envision what it would mean if you take it out and replace it with something else.

Kelly Brownell:

So if this were widely adopted, how would things change? Like certainly the teaching of economics would change, but how would things change out there in the way the country, for example, does its business?

Dirk Philipsen:

It would really quite radically change because going back to my previous example, if for instance, you would take the depletion of resources and see it as a cost taking away of capital, then the bottom line will suddenly look very, very different.

Kelly Brownell:

Okay. So you co-wrote an article recently with an interesting headline, could Trump be a catalyst for a seismic shift toward a sustainable and desirable future? What did you mean by that?

Dirk Philipsen:

One of the ways you can see Trump is that he's really not that different from what we had before, that he just is sort of the crassest, crudest version of what we had before. All right, so under Obama, one could claim, "Well, racism is really a thing of the past. It doesn't exist anymore." And of course, anybody who paid attention knew that that wasn't true. But with Trump, nobody's going to be able to argue it anymore. Part of why the elite didn't like Trump and didn't support him, I would argue, was because he just said a lot of the things that they all thought, but that in good, polite well-mannered company, one does not say. So I think that by highlighting the contradictions and by really making it crystal clear for an increasing number of people where the challenges and the problems lie, I think he allows the rest of us

to be much clearer about where we want to go to organize together, to come together and to have these conversations.

Kelly Brownell:

So in your book, you wrote about a conversation you had with your son. Can you tell us about that?

Dirk Philipsen:

Yeah, so he was a teenager and he was sort of a precautious teenager and reading a lot and very interested and caring little kid. And I watched the Inconvenient Truth with them. That's a documentary that Al Gore put together. And after the film, I said, "So Nick, what do you think?" And he just looked at me and he said, "So Dad, what are you going to do about this?" And I had no answer. I was tempted to say, "Well, I just bought a smaller car. I changed the light bulbs to led." But of course, looking into my son's eyes, I realized how incomplete and insufficient of an answer that is.

Yeah and now having raised four children, this more than anything else, keeps me up at night. I have a sense that my generation and my parents' generation have probably had more destruction and have created bigger problems than any other generations ever have. I want to be able to look my grandchildren in the eye and say, "At least, I have tried and I've done this that and the other." That is more than cosmetic. That's the moral imperative of our time, I think.

Kelly Brownell:

Very moving story. So thank you very much for joining me today. Your work is very fascinating and of course, very timely. So I appreciate you sharing this with us.

Dirk Philipsen:

Thank you so much for having me.

Kelly Brownell:

So my guest has been Dirk Philipsen. Dirk is an Associate Research Professor in the Sanford School of Public Policy. His book is called The Little Big Number: How GDP Came to Rule the World and What we can Do about It. It's published by the Princeton University Press. We'll have a link at our website, policy360.org. Until next time, I'm Kelly Brownell.