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Joseph E. Stiglitz, Amartya Sen, Jean-Paul Fitoussi
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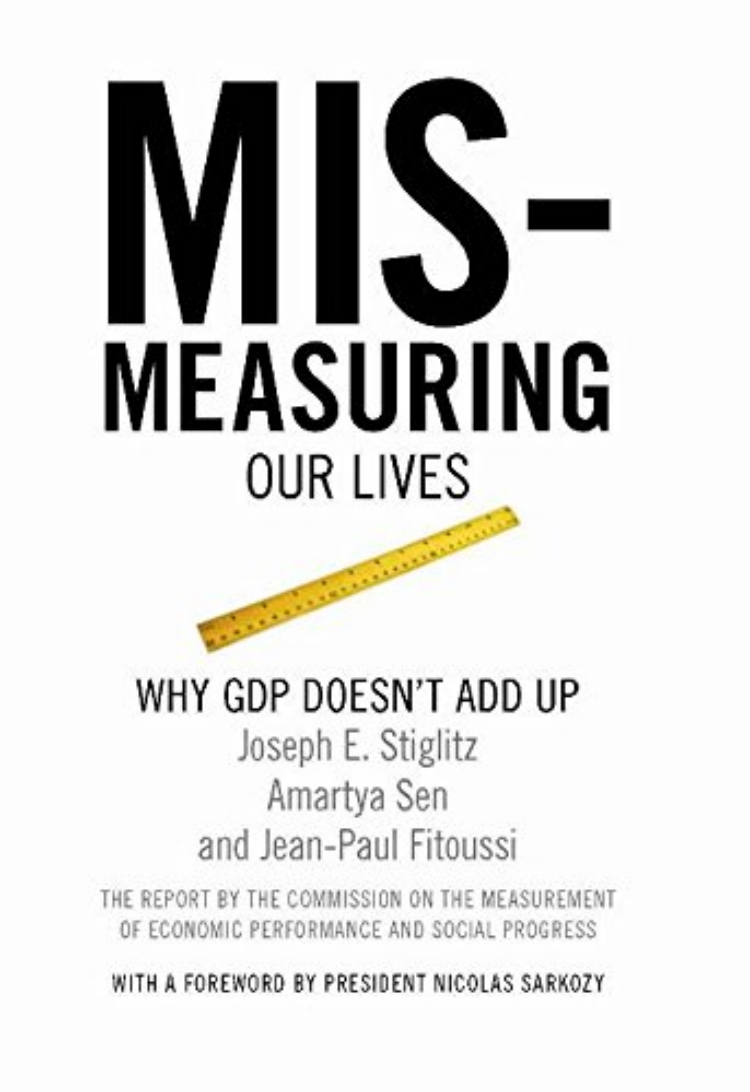

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Joseph E. Stiglitz, Amartya Sen, Jean-Paul Fitoussi : Mismeasuring Our Lives: Why GDP Doesn't Add Up before purchasing it in order to gage whether or not it would be worth my time, and all praised Mismeasuring Our Lives: Why GDP Doesn't Add Up:

9 of 9 people found the following review helpful. Missed opportunityBy Noah LeedI applaud the effort to detail the many ways in which GDP fails to measure national well-being, but lament the fact that this report does so little to attack the revered GDP edifice at its questionable economic foundation. Rather than conclude that over-reliance on indices might be a fundamentally flawed way to relate to a complex, evolving and unpredictable non-mechanical ecosystem, the report concludes there is a need for an abundance of new and more complex and more refined indices

to be piled on top of the existing ones.It has been widely observed that GDP cannot and should not be used to measure things other than what it purports to measure (as first stated before Congress in 1934 by the very man who developed the metric). This report is a thorough and detailed, if not dry, summary of how and why GDP fails to measure those things. But what if GDP does not really even measure what it purports to measure? What if it is fatally flawed not only as a general indicator of societal well-being, but as a specific metric of productive economic output? I'm afraid that territory remains too dangerous and heretical for many mainstream economists to explore deeply.This book essentially says, let's continue to use the GDP metric but supplement it with an array of other metrics that account for non-market productivity, environmental and resource sustainability, wealth and income inequality, life expectancy and health, education outcomes, debt levels, quality of government "output", inflationary bubble effects, and the general happiness of the citizenry. Even if we could objectively quantify ALL these things (can we really quantify that which is subjective?) into ever-better metrics, how reliable would the metrics be in establishing causation, and how reliably would they be used (or abused) by policymakers in attempts to achieve "desired" changes? If certain policy promotes improvement in one set of metrics at the expense of another set, how will policy proceed (other than in the usual way, on the basis of political expediency)?No matter what supplemental metrics are developed, GDP will still be the SINGLE metric used in the headlines and by the talking heads in most public spheres of media, politics and economics. The only way this might change is to debunk the myth that GDP represents "the economy" or "productive economic output". What GDP measures is the money-value of FINAL spending/investment (minus imports) over a period of time. In so doing, it imputes dollar-values to some things that cannot be measured, and then to other things that cannot be measured it assigns values that simply equal expenditures. It supposedly accounts for the effects of inflation and monetary overvaluation while somehow also accounting for qualitative improvements and the deflationary nature of productivity gains in certain consumer goods. Most importantly, GDP growth makes no accounting for any accompanying growth in debt. These facts are touched upon in the book, but not focused upon as reasons for a wholesale rejection of the GDP metric itself, based on its being an artificial construct unable to objectively measure sustainable productive output.By assigning values equal to expenditures, spending on "bads" (things that in no way should be considered productive goods or services) is automatically deemed to be... spending on goods. When government pays a private contractor for the "service" of crushing obsolete military goods or cash-for-clunker cars, it is paying the contractor to destroy value; the GDP accounting tallies up the destruction of value as... a creation of value. The same applies to any variety of non-productive and non-beneficial "services" that are produced, or to any reduction in productivity that might occur with featherbedding or make-work jobs.The greater a society's "demand" for bads, mostly via government, the greater its GDP growth. Rather than learn this lesson in WWII, and logically reject the GDP metric, we concluded that destruction for destruction's sake is a vital source of economic growth. This ignores that the whole point of consumption, which is the destruction of produced wealth, is to satisfy the wants and needs of humans. In making zero distinction between consumption that benefits humans and consumption that harms them, embracing the GDP metric allows governments to destroy and squander wealth in untold amounts, all in the name of "growth". Not surprisingly, governments can be much better at spending than investing. (To justify his budget, and to see it increase, a bureaucrat MUST find uses for money in amounts greater than allocated - useful uses are not always required.)In addition, we immediately we see that by definition, as a final-expenditure metric, GDP ignores the spending at intermediate stages of production. So obviously the metric does not represent all economic activity, but only the final resulting dollar-value of that activity. Referring to GDP as a measure of all economic activity is false and misleading, and relying on the expenditure-method for estimating GDP gives rise to the mistaken belief that consumption is substantially more important than investment and production to a vibrant and healthy economy. "Mismeasuring Our Lives" ignores this, and concludes that more attention should be paid to consumption and less to production. This erroneous conclusion comes from considering GDP to be purely a production metric.GDP is in fact NOT really a true production metric, since some of what it measures is not of any economic value in the sense of being exchangeable for other goods and services (especially imports). When an individual (or business) seeks to measure his economic output, he measures output in terms of the purchasing power it generates. But his actual SPENDING power (NOT true "purchasing power") is potentially much greater, depending on his access to credit and/or newly created money. The value of his final expenditures is a function of BOTH his output-based income AND his change in debt/savings. His effective demand at a given real output level, and the potential value of his expenditures over time, will increase with an increase in his debt -- and that level of demand will decrease with an increase in savings. So it is with nations, and thus evident that GDP is better thought of as a demand metric and not strictly as a metric of productive economic output.By far the biggest flaw of GDP is the fact that it IS a demand metric. In measuring so-called production by measuring expenditure, one must ask, what is the source of that expenditure? Since ability to spend consists not only of income generated by production (true "ability to pay"), but also of income generated by credit growth and/or money-printing, the GDP metric cannot answer that vital question. Consumption on the basis of ever-expanding credit obviously allows for a decrease in true wealth-generating activities (such as the production of export goods and capital goods), since the need for true productive "ability to pay" is decreased.As economic activity grows on the basis of debt growth, it allows for the increased transition of a greater number of

productive non-market activities, and a greater number of non-productive activities, into the formal money-economy. As these activities (childcare, housecleaning, pet grooming, personal training, government consulting/contracting, economics teaching, etc.) are formally monetized, there is not necessarily a true increase in productive output, but only an increase in the dollar-value of that output. The increase in value is partly a measure of debt-based demand, not just a measure of production-derived income. Thus GDP growth, in a regime of rapid and continual credit expansion, COULD simply be a measure of increasing debt-based demand, and not a measure of increasing productive output.Evidence that this is indeed the case for the U.S. can be seen in increased debt levels, especially financial-sector debt: after four decades of total (public and private) debt at around 150% of GDP through the early 1980s, that level more than doubled over the next three decades. That expansion of debt has played a large role in the expansion of economic activity and consumption. Any significant contraction in debt will mean a contraction in demand, and a potentially devastating contraction in GDP in the form of a deep depression.Consider also that by dramatically increasing demand for goods and services and assets, credit expansion has inflated the dollar-values of some of those things to levels that can only be sustained by further credit expansion (demonstrated by recent asset bubbles, on what may turn out to be a relatively small scale). By not accounting for growth in debt, GDP fails as a useful metric, and serves to lead us towards the brink of disaster rather than away from it.Economists will continue to use the GDP metric as though it truly represents "THE economy." Indeed, the authors at one point refer to an "economy that grew at a rate of 2.75%" when what they really should have said was an "economy whose currency-denominated expenditures reflecting domestic-based demand grew at a rate of 2.75%". Simple growth in demand should not be equated to the growth of an economy. Anyone can increase effective demand by simply increasing debt (just ask Paul Krugman). That is not true economic growth, that is borrowing from future demand to create current demand, with unknown consequences.Perhaps someday a better "all-purpose" metric will be developed. I think the best part of this book is the eloquent foreword by Nicolas Sarkozy, who warns we "have wound up mistaking our representations of reality for reality itself... but reality always ends up having the last word". The book, alas, then goes on to express the need for developing even more representations of reality, since our current ones fall short. The real need is to embrace sound principles regardless of what all the instruments on the dashboard, and all the math in the aggregate models, might be telling us.30 of 31 people found the following review helpful. Vital for journalists, environmentalists, economists, and concerned citizensBy Paula L. CraigJohn Maynard Keynes once said "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist." Nowhere is this more true than in the misuse of GDP statistics. If you are a journalist or other writer who uses GDP statistics, you owe it to society to read this book. I am delighted to see prominent economists such as the book's authors paying attention to the problem of misused GDP statistics leading to bad economic decisions."Mismeasuring Our Lives" makes the problems of GDP clear. GDP is not necessarily a bad statistic, but its limitations must be kept in mind. GDP is not a measure of prosperity, or of quality of life. GDP says nothing whatever about sustainability. The authors' main point is that when making policy decisions, GDP should never be the only consideration. (Similarly, a checking account balance is useful for determining the prosperity of a household. However, to avoid bankruptcy it is wise to also consider such things as income, expenses, and savings. Paying attention to the checking account balance and nothing else can be seriously misleading.)The book contains a discussion of adjustments to GDP to make it more useful. There's also a chapter on measuring sustainability. I thought this was fine as far as it went. I was disappointed that nothing was said about Herman Daly's three laws of sustainability. These are: (1) Renewable resources such as fish, soil, and groundwater must be used no faster than the rate at which they regenerate. (2) Nonrenewable resources such as minerals and fossil fuels must be used no faster than renewable substitutes for them can be put into place. (3) Pollution and wastes must be emitted no faster than natural systems can absorb them, recycle them, or render them harmless. I would have liked to see a discussion of measurement based on these. I would also have liked to see more on the implications for policy decisions of using measurements beyond GDP.As far as writing style, the book is a bit stodgy and academic. However, don't let that stop you. There is nothing here that is beyond an ordinary reader. The book is not very long, only 136 pages.2 of 2 people found the following review helpful. Necessary Reading!By Flavio CipparroneI always thought index creators, in general, do not cautiously considered what they were measuring.Perhaps the world as a whole is becoming stupid...1) GDP indexEconomist Howard Katz warned several times about GDP on Kitco site.He wrote:"Members of the paper aristocracy measure the nation's economy by a statistic called Gross Domestic Product. Gross Domestic Product was invented in the 1930s by a Russian national who worked his way into the New Deal and devised the formula for GDP. He presented this without proof that it actually worked and measured the real economy. Hardly any American can pronounce his name.For example, if a man invents a thermometer, he is obliged to show that it actually does measure the real temperature. If he takes it outside in January and it measures hot and in July measures cold, then his thermometer does not work, and he is a failure.This is the case with GDP. For example, a very poor period in the American economy was the early 1940s. This should not be a surprise because the world was at war, and everyone was engaged in the destruction of goods. One could not buy a new house in the early 1940s because none were being

built. One could not buy a car for the same reason. Gasoline was rationed to 3 gallons a week. Butter and many food items were also rationed. You would walk into a store and find that it did not have the item you wanted to buy. But real GDP rose sharply during this time. This is the thermometer which reads hot in January.""To measure only the quantity of goods produced and to ignore the larger question of which goods are most wanted and needed is insanity. In the 1930s, Stalin gave the Russian people industrial goods when they needed food. Eight million starved to death, but if they had had GDP in those days, then the Soviet GDP would have looked very good.At the present time, the U.S. Government is promoting housing over farming. We have too many houses and not enough food. Every housing development starts by purchasing land, usually from a farmer. It takes land out of agriculture, and the number of arable acres is falling as the population is increasing. Two years ago, we had a food scare, and there were food riots in several countries. The Government of Haiti fell because of a food riot. That has to be considered a warning. We have too many houses and not enough food. And when the commodity pendulum goes into high gear, we will face food shortages far more serious. To divert production from food into houses is not economic growth, and this is a simple illustration of the absurdity of GDP, which measures only quantity and ignores quality."----------2) H index:If you pay attention to the H index, that intends to measure academic "intelligence", think about this excerpt (translated from internet):"Grigori Perelman is a Russian mathematician born in 1966 in Leningrad. He worked at the Steklov Institute of Mathematics in St. Petersburg. From 1992 to 1995, he stayed in the United States and then returned to their country of origin and disappeared almost completely from the academic world. We can find more complete bibliographic elements here. In the portal business of Thomson Reuters and its ISI Web of Knowledge, he published four papers cited a total of 132 times. His h-index is equal to 4 (if I did well so far). In short this is pretty bad. The story could end there but here in 2006, he was awarded the Fields Medal, the equivalent of the Nobel Prize in mathematics. Grigori Perelman refuses the medal for which he was rewarded for having solved the "Poincare Conjecture" which is considered one of the most difficult math problems. Solving this math problem had been priced in 2000 by the Clay Mathematics Institute as the "most wanted seven problems of the millennium." Therefore the Institute awarded him last Thursday this award in the amount of one million dollars. At present it is unclear whether Perelman will get his reward, is doubtful because it had refused to move in 2006 to receive his Fields Medal.It is surprising the h-index of Grigori Perelman. Why is it so low while the mathematician is considered one of the best and brightest researchers in their discipline. Here's why: Perelman did not publish his work in a peer-review (peer review). He has published (3 articles total in 2002 and 2003) electronically on the arXiv database, which is mainly used by the authors to post the pre-release versions"----------Oh, then Perelman H index = 4. And... ?I ask : What exactly this H index measures ??Is someone with H=29 or H=35 really better than Perelman? ...----------3) And how can we define prosperity??There are something wrong about (apparent) prosperity!Read, for example, National Geographic magazine (from May 2008) and notice what happened to China Yan Tse river.Ask if you really need a 3 tons car to transport you every day.Read "Limits to Growth" book by Donella Meadows as a warning and think hard about what we are doing to this world.Or we will soon attain a non return point, completely spoil the natural ecosystems and condemn the human race, that is, your grandsons, grandgransons, ... to a miserable life and death.New ideas about what products are really important are necessary. NOW.----------Conclusion: You need to measure things paying attention to the (bad) side effects of the prosperity. And you need to strongly combat simplistic vital metrics.

In February of 2008, amid the looming global financial crisis, President Nicolas Sarkozy of France asked Nobel Prize–winning economists Joseph Stiglitz and Amartya Sen, along with the distinguished French economist Jean Paul Fitoussi, to establish a commission of leading economists to study whether Gross Domestic Product (GDP)—the most widely used measure of economic activity—is a reliable indicator of economic and social progress. The Commission was given the further task of laying out an agenda for developing better measures.Mismeasuring Our Lives is the result of this major intellectual effort, one with pressing relevance for anyone engaged in assessing how and whether our economy is serving the needs of our society. The authors offer a sweeping assessment of the limits of GDP as a measurement of the well-being of societies—considering, for example, how GDP overlooks economic inequality (with the result that most people can be worse off even though average income is increasing); and does not factor environmental impacts into economic decisions.In place of GDP, Mismeasuring Our Lives introduces a bold new array of concepts, from sustainable measures of economic welfare, to measures of savings and wealth, to a “green GDP.rdquo; At a time when policymakers worldwide are grappling with unprecedented global financial and environmental issues, here is an essential guide to measuring the things that matter.