Name ______________________ Date ________________ Class ________________________

PRIMARY & SECONDARY SOURCES Reading 18

TAKING THE MEASURE OF THE GDP: ANOTHER NUMBER THAT DOESN'T QUITE ADD UP

Gross domestic product (GDP) figures are widely reported and deeply respected. But how valuable are they? As you read the excerpt, think about the difficulties involved in measuring the output of an entire national economy. Then answer the questions that follow.

On the afternoon of March 25 seven officials at the Bureau of Economic Analysis will convene in an office of the Commerce Department, pull down the window shades—lest someone is spying from outside—and begin an arcane [secret] calculation. . . . The officials will seek to determine a number—*the* number—and it is important that the number be secret. The officials will not utter the number aloud, in case the room is bugged. Traveling to the bathroom, they will go in pairs. At the end of their priestly deliberations, the number will be finalized. At 8:00 the following morning, reporters will be admitted to another office with a neat stack of press releases on a table. At exactly 8:30, the reporters will be permitted to transmit the number: the growth rate for the fourth quarter . . . of the gross domestic product. The GDP is the sum of the market value of all goods and services that the nation produces, and unlike other indicators, such as the unemployment rate, it attempts to take account of the entire U.S. economy. Immediately trumpeted by the media, the quarterly GDP figure can move markets and affect elections. It is totemic [deeply respected]. But how, exactly, is the figure arrived at? What does it measure, really? And what does it miss?

This number represents the market value of services that figure into the third-quarter . . . measure of the GDP—everything from house painting to brain surgery. The figure, $1.8 trillion, looks hard, but like the other numbers here, it was arrived at by computing a staggering set of rather soft variables. It takes forty Commerce Department economists to do the calculation. [It requires] a giant spreadsheet of 600 rows of data derived from thousands of statistics provided by the Census Bureau, the Bureau of Labor Statistics, and private industry. (It should be noted that certain services are not calculated, including unpaid housework and farmwork.) As new information becomes available, each quarterly figure is revised—twice the following quarter, again annually, and then once more every five years. Thus the GDP number is but a work in progress. . . .

The change in business inventories—tires, pet food, etc.—is [included in] the GDP. But inventory figures indicate just how problematic it is to estimate the GDP. . . . Because inventories data is incomplete at the time the quarterly GDP number is first calculated, the figure must be estimated. It's one of the numbers Commerce Department officials discuss most behind their lowered shades. [In a recent] October they guessed wrong by 37 percent—at least by comparison with the subsequent November estimate. Changes in inventories are extremely volatile, . . . and despite new scanning technology and other improvements in inventory control, physical goods remain difficult to count. . . .

The GDP doesn't tell us what kinds of jobs are being created, how our standard of living is changing, or how the economy is being restructured.

In 1991 the United States stopped focusing on gross national product, which measures only what Americans and American-owned companies produce, and began to focus on domestic output. Thus goods and services created within our borders now count as part of our growth, regardless of what company—Japanese, German, or American—produces them. The change was a concession to the complexities of the global economy, and such tinkering is likely to continue. But the real question may be whether the GDP is a genuinely useful measure. From 1983 until 1989 the United States experienced twenty-six quarters of GDP "growth." Yet by the end of the decade, workers labored longer for less pay and the United States had become the largest debtor nation on earth. The GDP

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doesn't tell us what kinds of jobs are being created, how our standard of living is changing, or how the economy is being restructured. Given the slipperiness of the quarterly GDP number, one might well ask why we follow it. Perhaps the answer is that we cannot let go of the belief that we are a national economy, subject to national trends, with common hopes for growth.

Moynihan, Michael. "Taking the Measure of the GDP." *Harper's Magazine*, March 1993

ANALYZING THE READING

1. What does the author imply when he writes that the GDP figure "looks hard, but . . . it was arrived at by computing a staggering set of rather soft variables"?

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2. How does the author use inventory figures as a way to critique the GDP?

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3. Why did the United States start focusing on gross domestic product instead of gross national product?

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4. According to the author, why do people follow GDP figures when those figures are so "slippery"?

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5. Do you think the GDP figure lacks the accuracy to be useful? Explain your answer.

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