

The GDP Myth

Why "growth" isn't always a good thing

By **Jonathan Rowe & Judith Silverstein** 1999

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George Orwell really did see it coming. "As soon as certain topics are raised," he wrote, "the concrete melts into the abstract." Nowhere does it melt more quickly than in economics. Public discussion of the economy is a hothouse of evasive abstraction. Opinionators and politicians rarely name what they are talking about. Instead they waft into generalities they learned in Economics 101.



The President's State of the Union Address was a case in point. The President boasted of the "longest peacetime expansion of our history." That's how pols always talk. It sounds like truly wonderful news. But what actually has been expanding? A lot of things can grow, and do. Waistlines grow. Medical bills grow. Traffic, debt, and stress all grow. We can't know whether an "expansion" is good or not unless we know what it includes. Yet the President didn't tell, and the media hordes didn't ask, which was typical too.

A human economy is supposed to advance well-being. That is elementary. Yet politicians and pundits rarely talk about it in those terms. Instead they revert to the language of "expansion," "growth," and the like, which mean something very different. Cut through the boosterism and hysterics, and growth means simply "spending more money." It makes no difference where the money goes, and why. As long as the people spend more of it, the economy is said to "grow."

The technical term for this is "Gross Domestic Product" or GDP, which gives the proceedings an atmosphere of authority and expertise. But it doesn't take a genius to smell the fish. Spending more money doesn't always mean life is getting better. Often it means things are getting worse. This is exceedingly hard for most commentators to grasp. It simply does not fit with the story line we learned in the economics texts. A number of writers have argued, for example, that things are much better than Americans realize, and that only a jaundiced and elitist media obscures this fact. Yes, there is a Cassandra industry of issue groups on both Left and Right that raise money on dire warnings. Yes, the media gets more attention with bad news than with good. But that doesn't mean Americans are wrong when they tell pollsters that they are concerned about the direction of the nation, even though their own economic fortunes are pretty good. When one looks at what is actually growing in America today, that view makes a lot of sense. Consider a few examples.

The Flab Factor

To put this delicately, Americans are becoming quite ample. Over half of us are overweight. The portion of middle-aged Americans who are clinically obese has

doubled since the 1960s; it is now one out of three. The number that is grossly overweight - that is, can't fit into an airline seat - has ballooned 350 percent over the past thirty years.

That's a lot of girth, and a prodigious source of growth. Food is roughly a \$700 billion industry in the United States, counting agriculture, supermarkets, restaurants and the rest. Unfortunately, a good deal of that industry ends up inside us Americans. The result is flab, and a diet and weight loss industry of some \$32 billion nationwide and - yes - growing. Richard Arme y, the House majority leader and an economist, has opined that "the market is rational and the government is dumb." Here's a bit of rationality for him. The food industry spends some \$21 billion a year on advertising to goad us to eat more. Then we spend that and half again trying to rid ourselves of the inevitable effects.

When diets and treadmills don't work, which is often, there's always the vacuum pump or knife. Cosmetic surgery is another booming sector, and much of it aims to detach unwanted pounds. There were roughly 110,000 liposuctions in the nation last year, at a cost of some \$2,000 or more apiece. At five pounds per, that's 275 tons of flab up the tube. Pack it in, vac it off; it's pretty rational, especially if you are in the packing or the vacking business - or if, as in Arme y's case, you get campaign contributions from those quarters.

Girth is one growth sector with a bright future. With Channel One and billboards filling schools with junk food ads, and with computers joining TV as a sedentary claim on time, kids are becoming broad of beam like their folks. The Surgeon General says childhood obesity is "epidemic," which is bad for kids but good for growth. Clothing lines for the "husky" child are expanding, as are summer camps for overweight youngsters. Type II diabetes, the kind associated with weight, has quadrupled among kids since 1982, which is a boost for the pharmaco-medical establishment.

Meanwhile, eating disorders such as bulimia have become a growth sector unto themselves. Bulimia may be the trademark affliction of the growth era. It is a disease of literal obedience to the schizoid messages that barrage young girls: indulge yourself wantonly but also be taut and svelte. The teen magazines make the economy grow, and then the treatment for bulimia makes it grow more.

Medical Costs

If Clinton's clunky medical insurance proposal did nothing else, it at least put the medical insurance industry on good behavior for a while. Those days appear to be over. The Health Care Financing Administration says that nationwide, outlays for medical treatment are likely to double over the next decade. Many small employers already are getting hit with hikes of 20 percent or more.

That means more than a sixth of the economy as conventionally measured will be devoted to treating disease. Not only is that major GDP; it's also a product of GDP. C. Everett Koop, the Surgeon General in the Reagan Administration, has said that some 70 percent of the nation's medical bill stems from preventable illnesses - that is, ones that are mainly lifestyle induced. We eat too much, drink too much, smoke too much, watch too much TV, absorb too much stress, and dump too many toxic substances into our air and water.

We are literally growing ourselves sick, and the resulting medical bills make the economy grow more. A study by the American Public Health Association a few years ago found that the United States could cut its medical costs by \$17 billion a year if we all cut our daily intake of fat by just 8 grams, the amount in half a cup of premium ice cream.

"One way to reduce health costs is to get people to use the health care system less frequently," Dr. Koop said sensibly - but not rationally by Armev's standard. If people watched less TV, drove less, ate less but more healthfully, there would be less growth. So instead we resort to high-tech - and expensive - drugs and treatments to undo what we have done. Such Service

When politicians crow about an expanding economy they make a big assumption - that people actually get something for the money they spend. That's life in the economics textbooks but not in the world we inhabit. W. Steven Albrecht, an accounting professor at Brigham Young University, estimates that white-collar fraud costs us some \$200 billion a year. (The yearly take of burglars and robbers is more like \$4 billion.) That estimate is probably low. Americans lose at least \$40 billion a year to telemarketing fraud alone.

In an era of deregulation and belief in benign "market forces," the toll gets steadily worse. Phone bills and the like have become horrendously complex, for example. The Federal Communications Commission received 10,000 calls a month in the first five months of last year from people who couldn't understand their bills. The complexity has spawned a practice called "cramming" in which third parties slip phony charges for dating services, psychic help lines and the like into a generic category in the bill. Then there are the no-armed bandits that operate on practically every street corner under the alias "ATM machines". When banks began to install these in the late 1970s they promised lower costs and therefore lower fees. Today we literally have to pay for access to our own money, and increasingly we pay twice. The average bank customer in the United States pays over \$150 a year in ATM fees, according to a study by the U.S. Public Interest Research Group. In California alone, ATM users pay over \$1.5 billion a year, or as much as people making between \$30,000 and \$50,000 pay in state income taxes.

In their unflinching instinct for euphemism, economists call this a "service" industry. Banks pay us 1 to 2 percent for our deposits, loan the money to someone else at up to 18 percent, and then they tax us when we take our own money back. Good service. Next time the pols start touting "tax cuts," let's hope our alert media friends think to ask them about the privatized tax systems like this that take those cuts away.

Pluck the Price-Payer

How do they get away with it? Wise investing doesn't hurt. Banking interests put some \$17 million into the last federal elections, not counting in-kind payments, loans and "soft money" contributions to political parties and the like. It doesn't take a cynic to suspect a connection between such outlays and the ability of the banks to impose their money-access tax upon the rest of us. When politicians hail the nation's "robust growth," they are talking in part about the robust flow of money to themselves. In California, campaign spending reached half a billion dollars this year, a new record. It is growing faster than major league baseball salaries. In

national politics the cost of congressional campaigns has grown four times faster than the economy as a whole; and again, that's not counting "soft money." Few Americans would say that politics has gotten four times better over that time.

It is easy to forget that economically, the campaign finance system works much like the ATM machines: It gets us coming and going. First we provide the money that interest groups pass along to politicians. (The American Bankers Association doesn't pick its money from trees, but rather from us.) Next the pols support policies that enable such interest groups to extract still more from us. The pols get a cut of that extraction in the next round of campaign contributions, and the wheel turns again.

Debt

Americans have a new role in the world. No longer are we the arsenal of democracy, the sturdy producers of Depression-era murals. We are now consumers, the insatiable maws whose buying keeps the world economy afloat. "Amid the turmoil [in Asia]" The Wall Street Journal reports, "the U.S. consumer is emerging as a savior of sorts." Jim Hoagland of The Washington Post called this consumer "a truly heroic figure."

World salvation is serious business, and the United States fulfills this global obligation the way it has fought its wars - with borrowed money. Consumer debt has burgeoned in the United States. It has grown 73 percent since 1993 and is now some \$1.5 trillion, which is about the size of the economy of France. (That doesn't even count home mortgages, which add about \$3.8 trillion more.) The average American household has 11 credit cards and owes some \$7,000 on them at any given time, plus the car loan and the mortgage.

If Americans feel apprehensive about the future, it just might be in part because they have burdened that future with debt. Yet debt is the Viagra of a growth economy in middle age. It provides an appearance of robust function when in reality we are borrowing ourselves into a financial hole. First the buying itself makes the GDP go up. About half of retail sales today - some \$1.4 trillion - are done with debt. Then there's the interest on consumer debt, which comes to over \$150 billion a year and growing. Buy a car on time and you can end up paying more for the money than you do for the car. The GDP adds the two together and calls it growth. If Americans paid their bills on time, the money they saved on interest would amount to a 100 percent federal income tax cut for everyone making between \$20,000 to \$50,000 a year.

But less debt would mean less GDP. It also would mean less business for the satellite industries that have grown up around debt. According to the Small Business Administration, the fastest growing small business in the country over the next decade will be debt collection. Employment there will increase at twice the rate of small business as a whole. Curb debt and you reduce the need for people to collect the debt, which is bad for growth. You also reduce the need for debt counselors and bankruptcy lawyers. Bankruptcies have doubled over this decade, with more to come. "We're going to be happy next year, but nobody else is," said the president of the Bankruptcy Institute, a lawyers' organization.

Consumer debt is another growth sector with a big future. Banks send out over 800

million credit card solicitations every three months, which will come as no surprise to most Americans who receive mail. Today some 28 percent of households making under \$10,000 a year have cards, and over half of college students. Students get free T-shirts and Frisbees in college registration lines if they sign up for cards. Of course, many of these students are already in debt for tens of thousands of dollars because of student loans.

In the eyes of the opinion class there is nothing wrong with this. To the contrary, in the words of the Post's Hoagland, it means that we "consumers" will continue to shoulder the world's burdens "by continuing to borrow, spend and consume with impressive single-mindedness." The only danger is that we might become less debt prone, but our banks are on the job. They are starting to punish customers who pay their bills on time. These conscientious citizens are now "freeloaders" who must bear extra fees, shortened grace periods, even cancellation of their cards.

Growing Nowhere

Clichés become that for a reason. When people associate growth with traffic, it's because that's how they experience it in their lives. Traffic is a plague; but it's both a result of growth and also a big source of it. In the strange abstracted world of economics, a plague is good so long as it makes us spend more money.

In California, pace-setter in traffic as in other things, drivers are experts on this subject. Los Angeles has been the most car-congested city in the country for 14 years running, and the rest of the state is not far behind. It's a lot of annoyance, but also a lot of gas. Angelenos alone burn over \$800 million a year in gas while they sit in traffic and fume, and Americans generally spend over \$4 billion more. That's GDP and the economic future toward which much of urban America is headed.

Cars fume too, of course, which means bad air and respiratory diseases. LA leads the nation, if that's the word, in hospital admissions due to asthma, bronchitis, and other breathing problems, which adds to the state's staggering medical bill. More traffic also means more car crashes. There's a collision almost every minute on California's crowded roads, which helps make car wrecks a \$130 billion a year industry in the United States.

Call it the multiplier effect of misery. Yet as the roads become more clogged, the auto makers are pushing sports utility vehicles that burn more gas, take up more space, and do more damage when they crash. But they cost a fortune and that adds to growth. Meanwhile, the traffic takes a heavy toll on the roads themselves. Maintaining them costs some \$800 million a year in California, and \$20 billion in the nation; California drivers spend some \$1.2 billion a year on extra car repairs because the roads are in such bad shape.

That's all GDP. So too is at least part of the \$35-40 billion the nation spends defending the foreign oil supplies that fuel all this misery and havoc.

Stress

Prosperity is supposed to bring satisfaction and peace. But today's version has led the other way. As the GDP has risen and the economy expands, Americans have felt more harried and under siege. Stress is a factor in over 70 percent of all doctor visits, according to the National Institute of Mental Health. "Nearly every patient I

see leads a life influenced in some way by inordinate levels of stress," writes Dr. Richard Swenson of the University of Wisconsin Medical School in his book *Margin*. Stress is in large measure a product of the economy. It comes from the barrage of stimuli, the prolixity of choices, the pressures to perform and the multiplying claims upon our attention and time, which drive a rising GDP. Stress also is a producer of growth, in the form of an enlarging treatment industry of counselors, relaxation tapes, seminars, and spas. Sedatives and mood-enhancers of various kinds are roughly a \$6 billion industry. Over 28 million Americans now use Prozac and kindred drugs. (Technically, Prozac is for depression. But the lines between depression and stress are blurry at best.) Even kids are taking these drugs; at last count, some one-half million and rising. Whether that's good for kids is questionable; that it's good for growth is not. "Antidepressant makers need a new market as growth slows in the adult segment," *The Wall Street Journal* explained. A Bay Area teenager told what happens when a society redefines a whole generation as a drug market "segment." "Close to half of the 15- to 18- year-olds I know are on Prozac," she wrote in *YO! Magazine*. "Their parents will do anything to get their kids to achieve, behave, clean their rooms - whatever - including supplying them with the latest in personality-altering drugs."

A Simple Question

The more closely one looks the more one understands the feelings of ambiguity in the land. We are glad for jobs and a buoyant stock market. But we are uneasy about the world we are creating in the process. Is growth an unalloyed good when the fastest growing industry of the '90s is gambling? Not entirely coincidentally, the prison business is another booming sector. Since 1980 it has grown five times over. Inmate pay-phone calls alone yield over a billion dollars a year.

Even the mundane and once-innocuous elements of growth can give one pause today. Are we really happy about the aggressive marketing that makes kids obsessed with brand names? Clothing sales go up, but parents have to pay, and others too, sometimes dearly. In January, in Prince George's County, a Washington suburb, three teen-agers were shot within a single 20-minute period. In each case the object of the assault was an Eddie Bauer jacket. Police refer to such incidents as "fashion crime."

It's little wonder that politicians and pundits resort instinctively to the abstract when they talk about the economy. The particulars are turning into a somewhat murky soup. They keep telling us they can solve the nation's problems with more "growth." Yet increasingly problems are what the GDP consists of. This syndrome has become an unacknowledged subtext in much of the daily news. The AP reported recently on a part of eastern Oregon that is the fastest growing in the state. The source of this prosperity? A state prison and a nerve gas incinerator, along with a Wal-Mart distribution center and a railroad maintenance yard. Similarly, there is a pesticide plant in Richmond, California that is owned by the Zeneca Group, an \$8 billion corporation that also makes the breast cancer drug tamoxifen. Many researchers believe that pesticides, and the toxins created in the production of them, play a role in breast cancer.

"It's a pretty good deal," a local physician told the *East Bay Express*, a local weekly. "First you cause the cancer, then you profit from curing it." She was overstating of course, but the fact remains: both alleged cause and cure make the

GDP go up.

Some economists would dismiss this as wrong headed. If people didn't spend their money on such things as cancer treatments and gas to stand still in traffic, they say, they'd spend it on something else. Growth would be the same or even more. In other words, we shouldn't worry about exactly what is growing because hypothetically it could be something else. The argument approaches professional self-parody. It is fine for those who have the luxury of dealing with the economy through computer models. But for the rest of us who have to deal with the economy in concrete terms, the question of what exactly is expanding matters a great deal.

This doesn't mean the end of growth. Rather, it means the end of the assumption that anything called "growth" is automatically good. It means a need to stop using a euphemistic language that has that assumption built in. Republicans argue, for example, that the government should use the budget surplus for tax cuts because individual Americans will use the money more "rationally" than the awful government would.

Maybe so. But to look at where the money actually goes these days gives one pause. Is it really more "rational" to feed traffic jams as opposed to investing more in other forms of transit? Does the high-growth industry of gambling really do more for the country than the lower growth industry (at least in the short term) of building new inner-city schools with bathrooms that work? Would more Eddie Bauer jackets really do more for the country than better teachers?

We won't even get to these questions unless we start talking about the economy as it is, rather than the way economists tend to think about it. The job is going to fall first to journalists, who frame the first draft of reality for the public mind. They've got to start to articulate the economy as Americans experience it; and to do this, reporters have got to cleanse their minds of the vocabulary and assumptions of economic doctrine and explore the economic dimension of our lives with uncluttered eyes. That's a big assignment, but it starts with a very simple question. The next time a Jack Kemp, say, promises to double the rate of growth, as he did in the vice presidential debate in '96, don't call Brookings or Heritage to find out if it is possible in macroeconomic terms. Reporters must insist on details, as they would with any other story. Exactly what is going to double? Traffic? Consumer debt? Jet skis? The use of mood-altering pharmaceuticals? The next time the Commerce Department releases the GDP figures don't just call a Wall Street "analyst" for comment. Insist on knowing what those flows of money are leaving in their wake - that is, exactly what is growing and the effects. If official Washington doesn't have this data then find out why not.

People don't experience "growth." They experience the things that growth consists of; and that's where good reporting begins. Until reporters start to look at these issues from the standpoint of those who experience the economy rather than those who pontificate about it, they are going to remain where many readers think they are - in another world.