READINGS

[Essay]

OUR PHONY ECONOMY

By Jonathan Rowe, from testimony delivered March 12 before the Senate Committee on Commerce, Science, and Transportation, Subcommittee on Interstate Commerce. Rowe is codirector of West Marin Commons, a community-organizing group, in California.

Suppose that the head of a federal agency came before this committee and reported with pride that agency employees had burned 10 percent more calories at work last year than they did the year before. Not only that—they had spent 10 percent more money too. I have a feeling you would want to know more. What were these employees doing when they burned those calories? What did they spend that money on? Most important, what were the results? Expenditure is a means, not an end, and to assess the health of an agency, or system, you need to know what it has accomplished, not just how much motion it has generated and money it has spent. The point seems obvious, yet Congress ignores it every day when it talks about "the economy." The administration and the media do it, too. Every time you say that "the economy" is up, or that you want to "stimulate" it, you are urging more expenditure and motion without regard to what that expenditure is and what it might accomplish, and without regard to what it might crowd out or displace in the process.

That term "the economy": what it means, in practice, is the Gross Domestic Product—a big statistical pot that includes all the money spent in a given period of time. If the pot is bigger than it was the previous quarter, or year, then you cheer. If it isn't bigger, or bigger enough, then you call Federal Reserve Chairman Ben Bernanke up here and ask him to do some explaining. The *what* of the economy makes no difference in these councils. It never seems to come up. The money in the big pot could be going to cancer treatments or casinos, violent video games or usurious credit-card rates. It could go toward the $9 billion or so that Americans spend on gas they burn while they sit in traffic, or the billion plus that goes to such drugs as Ritalin and Prozac that schools are stuffing into kids to keep them quiet in class. The money could be the $20 billion or so that Americans spend on divorce lawyers each year, or the $41 billion on pets, or the $5 billion on identity theft, or the billions more spent to repair property damage caused by environmental pollution. The money in the pot could betoken social and environmental breakdown—misery and distress of all kinds. It makes no difference. You don't ask. All you want to know is the total amount, which is the GDP. So long as it is growing then everything is fine.

I am not talking about an obscure technical measure. This is not stuff for the folks in the back room. I am talking about what you mean when you use that term "the economy." Few words induce such a reverential hush in these halls. Few words are so laden with authority and portent. When you say "the economy" is up, no news is better. When you argue that a proposal will help the economy or hurt it, then you have played the ultimate

trump card in your polemical deck, bin Laden possibly excepted.

This, by the way, is not an argument against growth. To be reflexively against growth is as numb-minded as to be reflexively for it. Those are theological positions. I am arguing for an empirical one. Find out what is growing and the effects. Tell us what this growth is, in concrete terms. Then we can begin to say whether it has been good.

The failure to do this is insane. It is an insanity that is embedded in the political debate and in media reportage, and it leads to fallacy in many directions. We hear, for example, that efforts to address climate change will hurt "the economy." Does that mean that if we clean up the air we will spend less money treating asthma in young kids? The atmosphere is part of the economy, too—the real economy, that is, though not the artificial construct portrayed in the GDP. It does real work, as we would discover quickly if it were to collapse. Yet the GDP does not include this work. If we burn more gas, the expenditure gets added to the GDP. But there is no corresponding subtraction for the toll this burning takes on the thermostatic and buffering functions that the atmosphere provides. (Nor is there a subtraction for the oil we take out of the ground.) Yet if we burn less gas, and thus maintain the crucial functions of the atmosphere, we say "the economy" has suffered, even though the real economy has been enhanced.

With families the logic is the same. By the standard of the GDP, the worst families in America are those that actually function as families—that cook their own meals, take walks after dinner, and talk together instead of just farming the kids out to the commercial culture. Cooking at home, talking with kids, walking instead of driving, involve less expenditure of money than do their commercial counterparts. Solid marriages involve less expenditure for counseling and divorce. Thus they are threats to the economy as portrayed in the GDP. By that standard, the best kids are the ones who eat the most junk food and exercise the least, because they will run up the biggest medical bills for obesity and diabetes.

This assumption has been guiding our economic policies for the past sixty years at least. Is it surprising that the family structure is shaky, real community is in decline, and children have become petri dishes of market-related dysfunction and disease? The nation conceives of such things as growth and therefore good. It is not accidental that the two major protest movements of recent decades—environmentalist and pro-family—both deal with parts of the real economy that the GDP leaves out and that the commercial culture that embodies the GDP tends to erode. How did we get to this strange pass, where up is down and down is up? How did it happen that the nation's economic hero is a terminal-cancer patient going through a costly divorce? How is it that Congress talks about stimulating "the economy" when much that will actually be stimulated is the destruction of things it says it cares about on other days? How did the notion of economy become so totally uneconomic?

The story begins in Ireland in the 1650s. British troops had just repressed another uprising there, and the Cromwell government had devised a final solution to put its Irish problem to rest. The government would remove a significant portion of

[Patricide]

GENERATION WHY?

From a police report filed this winter on the arrest of Hughstan Schlicker, fifteen, of Mesa, Arizona.

On February 6, at approximately 2:10 P.M., Mesa police were dispatched to 125 South 56th Street, apartment 127, after Hughstan Schlicker called 911 claiming to have "shot his dad and killed him." I was at the complex within two minutes. A deceased male was found lying on the floor. He was later identified as Theodore Schlicker III. Hughstan surrendered without incident. He was wearing a black T-shirt, jeans, and white socks with red stains (no shoes).

While I was standing next to Hughstan, he started to cry. "Why did I do it?" he said, shaking his head back and forth. "Am I going to jail?" A few moments later, Hughstan overheard some officers talking about an investigation and said, "Dad came home. I shot him. What investigation? All I want to do is call my friends." Then he almost laughed and said, "Along with murder, you can put down truancy. I ditched today." Then he said, "Can we clean this up before my mom gets home? I don't want her to come home and see my dad dead."

A few more moments went by with Hughstan just sitting there, then he said, "I messed up, but my dad was being a dick and wouldn't let me on the Internet." As neighbors came out to observe the commotion, Hughstan looked around and said, "I wonder what everyone is thinking right now." As he was placed into the back of my patrol vehicle, Hughstan asked, "Do I have any red on me?" As I shut the door, Hughstan started crying again. "I would take it back if I could," he said. "I guess I'll never be an Eagle Scout now."

COURTESY THE ARTIST AND LYONS WIER ORTT GALLERY, NEW YORK CITY

Management, *by James Rieck, was on display this spring at Lyons Wier Ortt Gallery, in New York City.*

the populace—Catholics in particular—to remote parts of the island. Then it would redistribute their lands to British troops, thus providing compensation to them and establishing an occupational presence for the benefit of the government in London. The task of creating an inventory of the lands went to an army physician by the name of William Petty, a quick study and a man with an eye for the main chance. He classified much land as marginal that actually was quite good. Then he got himself appointed to the panel that made the distributions and bestowed much of that land upon himself. Petty's survey was the first known attempt in Western history to create a total inventory of a nation's wealth. It was not done for the well-being of the Irish people but rather to take their land away from them. It was an instrument of government policy, and this has been true from that time to the present. Governments have sought to catalogue the national wealth for purposes of taxation, confiscation, planning, and mobilization in times of war. They have not designed these catalogues to be measures of national well-being or of quality of life. Yet that is how the national wealth inventories have come to be used, especially the GDP. Somehow the tool has become the task. This part of the story begins with the Great Depression.

In the early 1930s, as the United States sank deeper into an economic slough, Congress faced an absence of data to help guide the way out. It didn't know exactly what was happening and where. There were no systematic figures on unemployment or production. President Herbert Hoover had dispatched six employees from the Commerce Department to travel around the country and file reports. These were anecdotal and tended to support Hoover's view that recovery was just around the corner. Members of Congress wanted more. Senator Robert M. La Follette Jr., a Republican of Wisconsin, introduced a resolution to require the Commerce Department to develop a spreadsheet—as we would call it today—of the economy with its component parts. La Follette was a Progressive in the original sense. He believed in "scientific management and planning," and the resolution was to produce a tool to that end. It passed in 1932, and the work fell to one Simon Kuznets, a professor who was working at the National Bureau of Economic Research in New York. Kuznets knew that he was producing a policy tool and not a measure of living standards or well-being. As he put it later in his clinical prose, the goal was to help understand the "relations and relative importance of various parts of the productive system and their responsiveness to various types of stimulae as shown by their changes in the past." Kuznets had a tiny staff and virtually no budget. Data sources were fragmentary. But about a year and a half later, Kuznets, with brevity and candor that are rare today, laid out for Congress the limitations of the accounts he had constructed. He took particular pains to tell you

why you should not use these accounts the way you—and the press—have come to use them.

For one thing, the national accounts leave out a crucial dimension of the economy—the part that exists outside the realm of monetary exchange. This segment includes both the ecosystem and the social system—the life-supporting functions of the oceans and atmosphere, for example, and work within families and communities that is not done for money. So when the monetized economy displaces these elements—as when both parents have to work, or when forest clearing eliminates the cleansing function of trees—the losses are not subtracted against the market gain. Kuznets was under no such illusion. "The volume of services rendered by housewives and other members of the household toward the satisfaction of wants must be imposing indeed," he wrote. There is also the question of what he called "odd jobs," or what we would call the "underground economy." He knew these played a large role in the economy. He also grasped, more broadly, that the quality and importance of a function do not depend upon the amount of money paid for it—or whether any money was paid at all. The care of a mother and father is not inferior to that of a day-care worker just because they do not charge a price for their services. This recognition undercuts a basic assumption behind the GDP—namely, that the contribution of an activity can be gauged solely by its market price. But there is a practical problem, Kuznets observed. Accounts require data, and there is by definition little data on the underground economy and on nonmarket exchange. As a result, the national accounts include only the slice of economic reality that falls within the bandwidth that economists are able to grasp—recorded expenditures of money.

Then there is the thorny question of constructive versus destructive activities within the realm of monetized exchange. Once you have decided to count only that which is transacted through money, do you make the further assumption that everything transacted for money counts on the plus side of the ledger? The mentality that lies behind the GDP assumes that you do. We all are "rational," so any choice we make in the market is by definition one that makes our lives better. Kuznets focused on one obvious exception: activities that are generally illegal, such as gambling and selling drugs. To assume that such expenditures add to the national well-being would undercut the rationale for making them illegal in the first place. The GDP is an instrument of the state, after all, so Kuznets drew the line there. He was aware of how arbitrary this line is from an economic standpoint. Why exactly does legal gambling add to well-being if the illegal kind does not? Or what about alcohol? Given the assumption that legality confers benediction, the economy received a huge boost at the end of Prohibition,

[Scheme]

THE STONED LEADING THE BLIND

From an email sent in 2005 by Jason Cossman, owner of Pacific Health, Inc., a dietary-supplement company, to his uncle Steven Warshak, owner of Berkeley Premium Nutraceuticals. In February, Warshak was convicted of fraud, money laundering, and conspiracy in connection with the sale of Enzyte, which was marketed as a male-sexual-enhancement pill. The email, which Warshak forwarded to employees, was introduced by the prosecution as evidence in the trial.

SUBJECT: OUR OUTBOUND STRATEGY

We have two eye products that are the same, more or less, with different brand names, Claroxan and Amercil. Claroxan people are on auto-continuity at $84.50 a month (we just jacked up the price), but pretty much everyone cancels after two months. Our outbound lists are just the lists of people who canceled Claroxan.

We call them and tell them we are a company contracted by a hospital to do health surveys. Our rep begins by asking eyesight questions, and the customer inevitably tells our rep they took Claroxan but it was too expensive. Our rep then tells them about Amercil, an eyesight tablet the hospital is promoting, which works like Claroxan but has a higher-quality formula, at a fraction of the price. Just 'cuz they decided the $84.50 was a rip-off doesn't mean they won't cough up more loot!!!!

The poor customer bites, thinking he's getting a deal, even though he's actually getting taken by my company for the second time around!!!! That's it. No advertising! No website even! Pretty much pure profit.

The scheme is beautiful. Dreamed it up after many a bong hit one night. These customers are fish in a barrel, man. Exploit the shit out of them. If you outbounded all your Enzyte people and told them Ogöplex (or any sex product you could dream up) worked better and was much cheaper, I think enough'd bite on it to make your media dollars work harder for you. But then again—what the fuck do I know?

COURTESY PIEROGI, BROOKLYN, NEW YORK

Sweeping Through, *by Yoon Lee, was on view this spring at Pierogi, in Brooklyn, New York.*

simply because the drinking that formerly was illegal now was deemed permissible. But booze still was booze. If the government can increase the growth rate by jiggering the metrics in this way, that does not increase confidence in the validity of measure. But legality is the easy part. Just beneath it lies a deeper issue—the assumption that every purchase is beneficial simply because someone has paid the purchase price. The exclusion of illegal activities, Kuznets said, "does not imply . . . that all lawful pursuits are necessarily serviceable from the social viewpoint." He left the question there, a chasm that honest inquiry has to plumb.

There are so many examples of expenditures that go into the GDP that have a questionable claim to the stature of growth and good, even from the standpoint of those who make them. For example, much consumption is compulsory, in that buyers have little choice. There is fraud, such as the way seniors are cheated in reverse-mortgage scams. There are also products that are designed to lock buyers into an endless stream of high-priced replacements, such as inkjet-printer cartridges that are designed to resist refilling. There are car bumpers that are designed not to bump, so that a mild fender bender turns into a $5,000 repair bill. There are the usurious charges and fees built into credit cards. Not all Americans confronted with these expenditures regard them as "consumption choices" that propel them further up a happy mountain of more.

The toughest case for the economic mind is addiction. The GDP assumes, as most economists do, that people are inherently "rational." What they buy is exactly what they want, and so their purchases must make them happy in exact proportion to the prices paid. Yet addiction has become pervasive. It has metastasized far beyond the usual suspects—gambling, tobacco, alcohol, and drugs—and spread to such things as eating, credit cards, and shopping itself. Also neglected is what economists call "distribution." The GDP makes no distinction between a $500 dinner in Manhattan and the hundreds of more humble meals that could be provided for the same amount. A socialite who buys a pair of $800 pumps from Manolo Blahnik appears to contribute forty times more to the national well-being than does the mother who buys a pair of $20 sneakers for her son at Payless. "Economic welfare," Kuznets wrote, "cannot be adequately measured unless the personal distribution of income is known." As included in the national accounts, an accretion of luxury buying at the top covers up a lack of necessary buying at the bottom. As the income scale becomes more skewed, the cover-up becomes even greater. In this respect the GDP serves as a statistical laundry operation that hides the suffering at the bottom. Another problem has to do with work and the toll it takes on those who do it. Kuznets called this the "reverse side of income, that is, the intensity and unpleasantness of effort going into the earning of income." That earning comes at a cost of wear and tear upon the body and psyche. If the GDP subtracts depreciation on buildings and equipment, should there not be a corresponding subtraction for the wearing out of people?

What about the loss in the value of their skills as one technology displaces another? In the current accounting, this toll often gets added to the GDP rather than subtracted, in the form of medications, expenditures for retraining, and day care for children as parents work longer hours. Most workers would regard such outlays as costs, not gains. Had Kuznets been writing today, moreover, he probably would have added another kind of depletion—that of natural resources. It sounds incredible, but when this nation drills its oil and mines its coal, the national accounts treat this as an addition to the national wealth rather than a subtraction from it. The result is like a car with a gas gauge that goes up as the fuel tank empties. The national accounts portray a nation getting richer when it is in fact draining itself dry. Kuznets concluded his report with words that ought to be inscribed on the wall of every office on Capitol Hill and over every computer screen within a twenty-mile radius: "The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income as defined above."

Congress and everybody else have done exactly what Kuznets urged us not to do. The malpractice began with the gradual seep of the new accounts into the political arena. In his 1936 reelection campaign, Franklin Roosevelt noted that the economy—as defined by the national accounts—had increased under his watch. It was a number: who could resist? The likely source was FDR's close adviser Harry Hopkins, whose office was a hub for the young economists who came to Washington to join the New Deal. But in the passage across 15th Street from the Commerce Department to the White House, Kuznets's numbers were turning into precisely what he said they should not be. Then came World War II, when the national accounts played a central role in the mobilization effort. A bitter debate erupted in Washington over the nation's production goals. Corporate leaders insisted that the mobilization must come out of the existing level of production. They did not want to be stuck with excess capacity when the war was over. Kuznets and others argued to the contrary that the United States had vast troves of untapped capacity; they used the national accounts to prove it. FDR sided with the "all-outers," as this group was called. They appealed to his belief in the energizing effects of challenges; Roosevelt took their high estimates and made them even higher, the better to make his point. (The planners then had to shift gears to argue the case for system limits, which the national accounts also helped them do.) Then the accounts helped to coordinate the war production so as to prevent bottlenecks. By 1944 war production goals alone had surpassed the nation's entire output just ten years earlier.

It was as close as the nation has ever come to pure economic planning, and though much reviled, it helped to win the war. Postwar surveys revealed that Germany had no such planning tool, and Hitler's production program had been greatly hindered as a result. America had become the "arsenal for democracy" in part through a top-down approach made possible by the national accounts. As the war was winding down, the accounts served again to guide the economy back to peacetime without relapse into the dreaded Depression. Consumption was essential; the Cold War, with its Pentagon spending, was not yet in prospect. As war production diminished, shoppers would have to pick up the slack. The national accounts showed exactly how it could be done. As John Kenneth Gal-

[Lament]

DEATH BE NOT GREEN

Lyrics to "The Hybrid Car Song," by Mary Ellen Gabias, published in March in Braille Monitor, *the newsletter of the National Federation of the Blind. A recording of the song, which is sung to the tune of "The Surrey with the Fringe on Top," is available on the NFB website.*

Kids and dogs won't know when to scurry.
Silent death arrives in a hurry.
All who walk have reason to worry
'Bout the hybrid car.
We all want to stop the polluting,
Save a lot of gas while commuting.
If they made sound there'd be no disputing
With the hybrid car.
Saving the planet we all hold dear,
Nobody wants to destroy it.
Please make cars pedestrians can hear
'Cause we want to be 'round to enjoy it.
We don't need a noisy vrum-vrumming,
Just a simple audible humming,
So that we can know when you're coming
In a hybrid car.
Then we all can walk with safety on the street
Without fear that we will accidentally meet
A hybrid car.

[Counsel]

TRAILER OF TEARS

From a December 16, 1976, management bulletin by L. S. Shoen, founder of U-Haul and company chairman from 1945 to 1986. The document was obtained by the Los Angeles Times, *which last year published a series of articles that found that U-Haul had lost, repaired, or discarded truck and trailer parts sought by injured customers pursuing claims of negligence.*

Most of us are at some time compelled to testify by giving a deposition. We are required by law to tell the truth, the whole truth, and nothing but the truth. We are not, however, required to be blabbermouths. Here is what I learned during a recent deposition:

—That I was in fact a "dumb shit." By this I mean ignorant as to the accurate answers to most of the questions. After forty-eight hours the memory drops off to approximately 10 percent of what we originally saw or heard. So the first rule is to realize that you are a dumb shit and be glad that you are.

—The truth is that you are ignorant. Don't be embarrassed about this. Most of us know only a few things very well and on all other matters we are uninformed. Admit you are ignorant and join the club.

—Answer the question asked, not the one the opposition's "hired gun" attorney should have asked. If he asks a stupid question, answer the stupid question.

—Never tell the hired gun that someone else has a bulletin, letter, memorandum, or document of any kind. You cannot possibly know this to be true, because the other person may have thrown it out since you last saw it. If you never saw it, then you did not know of its existence and cannot testify about your own knowledge. Don't ever talk about a document unless you have the document in front of your eyes.

—Never forget that the opposing attorney is a hired gun. His smiles and good manners are a mask to cover his brutal and vicious goal of your destruction. He is paid to destroy you. Never relax in his presence. View him as the mercenary assassin that he is.

—Tell the truth. Be serious and sincere, and above all be truthful. Here is the rub: we normally blabber about subjects that we truly do not know about. Your careless statements are the buckshot that the hired gun will later use to gutshoot you at the trial.

braith put it in *Fortune*, "One good reason for expecting prosperity after the war is the fact that we can lay down its specifications."

The new Keynesian economists such as Galbraith were now the Merlins of prosperity, and the national accounts were their magic wand. Consumption itself was taking on a heroic stature; the returning troops were handing off the mantle of national purpose to the shoppers who would replace them in keeping the industrial machinery in motion. (The heroic imagery persists in the press today, as when we read that consumers will provide the "engine" for recovery, or that they will "pull" the nation out of its recession.) In this atmosphere, it was perhaps inevitable that the map of the nation's capacity would become a totem to its economic success. Simon Kuznets watched it happen with increasing dismay. (Galbraith came to have second thoughts as well.) Kuznets was a quiet academic who was loath to mount a soapbox. But he asserted over and over that those who had seized upon his handiwork had missed the point. In 1962 he wrote in *The New Republic* that in evaluating growth "distinctions must be kept in mind between quantity and quality of growth, between its costs and return, and between the short and the long run. . . . Goals for 'more' growth should specify more growth of what and for what." If you are going to "stimulate" the economy, in other words, could we at least have a little debate over what exactly you are going to stimulate?

The purpose of an economy is to meet human needs in such a way that life becomes in some respect richer and better in the process. It is not simply to produce a lot of stuff. Stuff is a means, not an end. Yet current modes of economic measurement focus almost entirely on means. For example, an automobile is productive if it produces transportation. But today we look only at the cars produced per hour worked. More cars can mean more traffic and therefore a transportation system that is less productive. The medical system is the same. The aim should be healthy people, not the sale of more medical services and drugs. Now, however, we assess the economic contribution of the medical system on the basis of treatments rather than results. Economists see nothing wrong with this. They see no problem that the medical system is expected to produce 30 to 40 percent of new jobs over the next thirty years. "We have to spend our money on something," shrugged a Stanford economist to the *New York Times*. This is more insanity. Next we will be hearing about "disease-led recovery." To stimulate the economy we will have to encourage people to be sick so that the economy can be well.