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Libertarians Attack The GDP Report, Because It Shows That Spending Cuts Are Hurting The Economy

By: Joe Weisenthal – February 1, 2013

On Wednesday, the Q4 GDP report showed a surprise contraction of 0.1%. It was the first contraction since the Great Recession.

The culprit: A marked slowdown in government spending, mostly fueled by the fastest annualized drop in military spending since the Vietnam War.

So naturally, one might look at the report and conclude, perhaps, that if we don't want GDP to keep shrinking, we ought to be careful about cutting spending too aggressively.

And so because of this natural impulse, libertarians and conservatives are launching a bizarre, misguided war against the GDP report.

It started yesterday morning, with a post up at the Cato Institute by Daniel Mitchell, which argued that it was wrong to take the "Keynesian" lesson from GDP, and conclude that spending cuts are hurting the economy.

He wrote:

But here's the problem. GDP numbers only measure how we spend or allocate our national income. It's a very convoluted way of measuring economic health. Sort of like assessing the status of your household finances by adding together how much you spend on everything from mortgage and groceries to your cable bill and your tab at the local pub.

Wouldn't it make much more sense to directly measure income? Isn't the amount of money going into our bank accounts the key variable?

The same principle is true - or should be true - for a country.

That's why the better variable is gross domestic income (GDI). It measures things such as employee compensation, corporate profits, and small business income.

Veronique de Rugy at National Review made the same argument.

There's so much wrong here.

First, the economy is not a "household" so right off the bat, you've got a bad analogy. But furthermore, this idea that looking at "Gross Domestic Income" is a better measure of the economy than GDP because it looks at 'income' rather than spending is objectively nonsense.

GDI is just another way of measuring GDP, as is totally logical, since every dollar spent in the economy is someone else's income. If the government cuts military spending by $100 billion, then that's $100 billion lost in someone's income (military contractors, soldiers, etc.). It doesn't change anything. All you've changed is how you count it. If you keep cutting government spending aggressively, a lot of folks are going to lose their income. In theory GDP and GDI should be equal (in practice, because they're both surveys and subject to measurement error, they can differ a bit).

The bigger lesson is the same. No matter how you measure it, cuts to government spending are going to hurt people's income, and thus represent a drag on the economy, at least at any given moment (acknowledging this doesn't preclude a philosophical argument that a smaller government will produce a more competitive economy).

Fighting over the proper amount of government spending is fine. Slamming one measure of the economy, because it captures the extent to which a government spending slowdown is slowing the overall economy, is madness.

Read more: http://www.businessinsider.com/the-war-on-gdp-2013-2#ixzz2JfJvafOx