Hold the GDP party for now [1]

Written by **Sam** [2] | Thursday 25 October 2012

There?s no doubt that today?s GDP figures are good news, but we should be wary about depending too much on GDP as a measure of prosperity. Prof Anthony Evans, a Senior Fellow of the Adam Smith Institute, wrote this superb piece about GDP [3] way back in 2009, but his point still stands:

> The "health" of the economy is too complex to be summarised in a single number. It would be like reviewing a novel based on the average words per page.
>
> GDP doesn't tell us how economic activity affects living standards. It fails to distinguish between a bubble and sustainable growth. It doesn't forewarn about inflation. And perhaps most importantly ? it doesn't help the average person on the street know whether they're more likely to become unemployed. After all, declining incomes actually increase the demand for many types of goods and services, which is why plenty of workers are prospering in the downturn.

I don?t want to be too grim, but we came ?out of recession? back in 2010 as well and we all know how well that turned out.

The fundamentals of the economy are still weak. Our levels of debt ? private and public sector ? are rivalled only by Japan. As a new paper [4] released by the excellent Save Our Savers (in cooperation with the Cobden Centre and the Adam Smith Institute) argues, the massive levels of private and public debt that have accrued over the past decade mean that no strong recovery is possible. And the monetary system is a de facto government subsidy for banks:

> As well as outright support, the UK?s banks are being helped by Quantitative Easing, by the Funding for Lending Scheme and by the record low Bank of England base rate. Above all, they are assisted by the knowledge that they are considered so important to the economy that they will be bailed out if they mess up again.
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> They are thought to be "Too Big Too Fail". If the banks make money they?ll continue to pay enormous bonuses. If they take stupid risks and blow up the ?nancial system once more, the government will step in with taxpayers? cash and the banks will still pay enormous bonuses. This is known as ?moral hazard?.
>
> The Bank of England believes this implicit subsidy has bene?tted British banks to the tune of £100 billion a year, leading to greater pro?ts and salaries yet doing nothing to diminish their appetite for stupid risks.

So, without wanting to pour too much cold water on good news, I don?t think we should party just yet. As Prof Evans says, ?statistics are like bikinis ? what they reveal is interesting, but what they conceal is critical.?

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