GROSS DOMESTIC PRODUCT:
HIGH TIME FOR CHANGE

The reconstruction of parts of The Gulf States of the US will cost the US taxpayer heavily, with estimates, jumping higher with the passing of each successive month.

After more than 18 months since 2 major hurricanes devastated parts of Louisiana and Mississippi, the estimates for the cost of reconstruction are, still, being calculated and tabulated to take into consideration such things as inflation costing, replacement of depreciated capital, etc.

The latest figures run into the many tens of billions of US dollars.

But the cost of the reconstruction of those devastated regions – which will be substantial, regardless of the final bill – is being included in the calculation of the **G**ross **D**omestic **P**roduct (GDP) of the US for each successive quarter.

The US GDP calculations of The Bureau of Economic Analysis, a division of the US Government's Department of Commerce, is not adjusted for such calamities.

GDP is defined as being the (gross) value of goods produced and services provided in a country, excluding transactions with other countries.

It differs from **G**ross **N**ational **P**roduct (GNP) which is the (gross) total value of goods produced and services provided in a country.

Clearly, therefore, the cost of the natural disasters, caused by Hurricanes Katrina and Rita, both of which struck the US Gulf Coast in the middle of 2005, have been included in the calculations of the latest GDP figures.

Which distorts the picture of the health or otherwise of the largest, single economy of the world, today, assuming that GDP is to be considered a reasonable *'barometer'* of the health of a country.

Louisiana's most-famous city, New Orleans, was inundated by the flood waters of Hurricane Katrina when the city's levees burst their banks due to the catastrophe.

The city, today, is still only just trying to recover, with many of the residents, still living in trailers, provided and paid for by the US Government.

Hurricane Katrina was followed smartly by Hurricane Rita, both hurricanes, having been major storms of the highest calibre.

The US Government's Federal Emergency Management Agency has calculated that the diaspora in New Orleans and along the Louisiana and Mississippi coasts amounted to not less than 828,678 households.

The US Congress approved, provisionally, a $US7.50-billion housing programme for the areas, affected by the 2 hurricanes.

The cost to the taxpayers of the US is not included in the calculations of the GDP.

Last Wednesday, The Bureau of Economic Analysis released a report which stated that the economy of the US *'grew at an annual rate of 2.2 percent in the third quarter, compared with 2.6 percent in the second* *quarter …'.*

There was mention of the 2 hurricanes that struck The Gulf States in 2005 with The Bureau stating:

> *'Corporate profits growth was strong in the third quarter of 2006, compared with the third quarter of 2005, when profits were reduced by Hurricanes' Katrina and Rita.'*

Many companies in the US benefitted from the impact of the 2 hurricanes since they received contracts from the US Government and a number of State Governments to assist in the clean-up and the rebuilding of entire communities, including but not limited to, the rebuilding of New Orleans and its levee system and the laying in of new infrastructure in this historic city.

Wall Street, looking for a leaf on which to grasp as the US economy continued its decline – for there was little else, in any event, other than a fragile leaf, provided by The Bureau – determined that The Bureau's release was good news for investors.

It was not.

It was clear that The Bureau's statistics indicated, inter alia, that the US economy is continuing to decline, albeit at a slower rate than had, earlier, been calculated.

Any experienced economist will explain that any and all statistical information has limited value and may prove, or disprove, any number of things.

In the case of the calculations of the GDP of the US, it is not, and never has been, a measure of the welfare or well-being of the largest, single economy of the world.

The history of the calculation of the GDP in the US dates back to 1942 when it was determined that, in order to plot the course of what was, then, a wartime economy, some statistical measure had to be created.

It was seen to be required in order to know and assess the production possibilities of The Land of The Free and The Home of The Brave.

But a GDP is, as its name implies, a *'gross'* figure and does not take into consideration such things as the replacement of depreciated capital, income production, the value of welfare, such as cleaning up and/or maintaining the quality of the air and water, etc.

Ironically, the clean-up of parts of Louisiana and Mississippi due to the passage of Hurricanes Katrina and Rita in 2005 is added into the calculation of the GDP even though, clearly, it does nothing for the overall economy and, as TARGET has, already stated, it tends to distort the overall economic picture.

Then, there is the matter of the cost of security in the US: As the annual bill increases, it is added, also, to the calculation of the GDP.

Today, the cost of increased security in the US, following the attack on New York by al-Qaeda operatives on September 11, 2001, is a heavy cross to bear and it adds, significantly, to the final tally of the GDP.

There is, also, the question of who gets what.

GDP is supposed to measure the income that is produced within a country, however, not all of the income, produced within a country, stays within the country or is part of the income of the people of the country.

Many investors from Japan to the Antipodes invest in the US, in property, in stocks and shares, in US Government bonds and even to the extent of establishing entire, integrated production facilities, such as the large, Japanese vehicle manufacturers.

Part of a country's GDP, therefore, will be exported and, in the case of the US, it is known to be repatriated in part, at least.

It is fact, today, that Japan and Germany are net recipients of income from abroad.

If one subtracts the net income from repatriated capital/profits exported back to foreign investors from the

Net Domestic Product, one is left with the Net National Product.

In Ireland, about 15 percent of primary income is exported back to investors around the world.

In the 1990s, the repatriation of primary income from this country was only about 8 percent.

In essence, therefore, the increase in the Irish GDP went a long way to benefit foreign investors in the country.

In calendar 2005, the Irish GDP rose by about 10.10 percent, Year-On-Year, however, the Net National Product was 24 percent lower than the GDP.

There is a great deal of work, being performed by various economists and actuaries, around the world, all trying to find a definitive formula for the measure of an economy's well being.

No international standard has been presented, as at today's date, but it is known that the calculations for GDP are sadly lacking and cannot be used as a measure of a country's well being.

Hence, when the US Government releases its latest calculations in respect of the country's GDP for a certain period of time, it should be treated as being, at best, only the merest indication of the health of the country.

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