A Modest Proposal For Augmenting The Gross Domestic Product Of Italy, Allowing Greater Public Spending, Employment, And Graft

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ABSTRACT

Italy's economy is stagnating, but a fiscal stimulus is ruled out by the Maastricht-limited deficit/GDP ratio. This paper presents a modest proposal for loosening the constraint on public spending by augmenting Italy's female labor-force participation rate and therewith Italy's GDP. Additional public spending would be popular, as it would increase employment; it would also be politically viable, as Italy's elected and appointed officials would welcome the opportunity for increased graft.

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1. Where we are and how we got here

It is a melancholy object, to those who wish Italy well, and recall its stellar economic performance over the early decades of the Republic, to observe its present enduring stagnation.

A fiscal stimulus is ruled out, it would appear, by the Maastricht-treaty proviso that limits the government deficit to 3 percent of GDP. To any thinking economist that proviso is of obvious, colossal absurdity: because it is not calibrated to the state of the economy, because it fails to distinguish public investment from public consumption, and not least because the constraint is expressed as a proportion of the measure we call "gross domestic product."

That measure bears comment. It is a commonplace, pointed out in Economics 1, that if a man marries his housekeeper GDP falls by the salary she is no longer paid, even though there be no change in her actual activity, in her product, and therefore, *ceteris paribus*, in the economy's total product. Economists dismiss it with a chuckle, as a mere quirk; but it is fraught with serious implications. Imagine that our airliners crashed, because their wings fell off, whenever they were caught in the rain; and that our aeronautical engineers simply chuckled "Of course they do, the wings are attached with water-soluble glue."[1] Surely they would be taxed with incompetence, and considered not engineers but buffoons.

That is the position we economists are in; and we were put here by a now long past *trahison des clercs*. A hundred years ago, the aspiration of the profession to empirical relevance led to the creation of *The Review of Economic Statistics*: the profession was asking itself what measures we wished to have, and how to construct them. Within thirty years that search was abandoned, that journal correspondingly renamed ("*The Review of Economics and Statistics*"); the so-called "science" of economics relinquished responsibility for its empirical evidence, and has since been happy enough to take "the data" from public bureaucracies, the United Nations Statistical Office in the van. Can one imagine assyriologists, say, leaving the job of defining the cuneiform alphabet to UNESCO?

What happened is well known. The Great Depression sounded, it seemed, the death-knell of Western capitalism; Hitler gave us all full employment, saving civilization as we knew it, but another Great Depression loomed right around the corner. This time, however, we had the Keynesian tools to stabilize the business cycle; but to know how to intervene we had to know, more or less in real time, what the economy was actually doing. A time-consuming measure, however sophisticated, would be useless; much better a quick-and-dirty index that the Department of Commerce could readily slap together from already available data.

Simon Kuznets produced exactly such an index, combining extant data without regard to logic or consistency.[2] In his index of "gross product" Kuznets included all agricultural production, for the market and not, because the available data were based on observed acreages and yields; industrial

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[1] The language is here colloquial: if wings and fuselage part company what "falls off" is of course the fuselage, and not the (lift-producing) wings. *Requiescant pignoli.*

[2] We have no reason to believe that Kuznets found that approach repugnant: his background was in Wesley Mitchell's *National Bureau*, a school of business-cycle analysts so epistemologically benighted as to seek to derive theory from the observed "facts," as if the "facts" of interest could be identified, and *stricte* exist at all, save in the light of some underlying, if unrecognized, theory.

production only for the market, with that of the extractive industries measured essentially by gross value and the rest by value added, as those were the statistics provided by the Census Bureau; the production of services also only for the market, save in the case of buildings, treated like agriculture because the available data again referred to the aggregate rather than to its marketed subset.[3] Undocumented activities, like the illegal ones, he simply ignored. The resulting construct was not, by any stretch of the imagination, a *measure* of gross product; it was at best an approximate *index* of its movements, good enough for government work.

And government work it became: national and supranational bureaucracies took on the task of producing (and refining) Kuznets' measure, and the economics profession simply left to them not only the administrative burden of collecting and processing the raw data, inevitably theirs, but the intellectual burden of defining the appropriate statistics, quintessentially ours. Some of us, some of the best of us, proposed radical improvements (e.g., Baran 1957, Nordhaus and Tobin 1972). These fell on deaf ears, *our* deaf ears: the profession's measure remained Kuznets', with the touch of lipstick added by the bureaucrats.[4]

Kuznets' construct was called not "an index of predominantly market-oriented economic activity," as it could and perhaps should have been, not even "an index of gross domestic product," which seems the least demanded by intellectual honesty, but, notoriously, "gross domestic product" *tout court* (actually "gross national product," at the time, but that is here irrelevant). Kuznets himself knew perfectly well what it was, of course, and used it intelligently, for example seeing the post-bellum cost of the World Wars in the *loss* of GDP from unemployment in the wake of the First, and the *diversion* of GDP to armaments in the wake of the Second (Fogel 2000). Not so, however, the profession at large.

Hitler's war completed the Kaiser's war's destruction of Western Europe's economic, military, and cultural hegemony. Hegemony has passed to the United States, and a good thing too, given the alternatives offered up by the 1930s; but it comes at a cost, especially to a discipline as intrinsically arduous, and subtle, as ours. Europe's economists used to come to the subject after a classical education, that teaches us, if nothing else, the complexity that links words to concepts; in the mass American economists – and today virtually all economists are, *qua* economists, American – lack that education, lack that intellectual subtlety.[5] Today's economists are vulgar realists, the concept does not go beyond the surface meaning of the word (witness Kenneth Arrow's and Christopher Sims' claim that "real value added" does not exist unless the production function is suitably separable, and more broadly the entire literature on "real" measures, with two classically-educated Italians the exceptions that prove the rule: Sims 1969, Arrow 1974, Fenoaltea 1976, Fuà 1993).

And there may be more to this. Graduate school does not just train, it "educates," it *socializes*, it passes on the ethos of the group: just like the children of a family might learn not to ask themselves why Uncle Charlie was absent for twelve years running, so graduate students learn, subliminally,

[3]The so-called "value added" of the extractive industries excludes the cost of ancillary materials (e.g., fuel), but not that of the primary raw material, the reserves destroyed by extraction. Were transportation similarly treated, its "value added" would remain gross of the f.o.b. value of the goods transported.

[4]Nordhaus and Tobin labelled their statistic a "measure of economic welfare," rather than "a correct measure of domestic product." That implicitly accepted conventionally measured GDP as correct in its own domain, and gave much too much away.

[5]In the 1960s Paul Samuelson, then the nearest thing to God, was heard to declare to a roomful of people (which included the present author) that "any graduate student today is a better economist than Keynes." Enough said.

what questions *not* to ask. While the Cold War was in full swing the long-term dynamics of capitalist economies were *not* to be investigated, as the results might give aid and comfort to the Marxist enemy; the collapse of the Soviet regime removed that risk, and the attendant proscription. A surviving proscription concerns our measures of the economy: there is a tacit agreement to accept the bureaucrats' empirical measures as whatever they purport to be, and referees do not reject papers because their "data" were simply downloaded from an official website and taken at face value.

Economists like to think of their discipline as a science (again a very American attitude, as where a classical education existed the "scientific" alternative was considered suitable for second-raters); but we have turned it into a religion. When the host and chalice are consecrated, we Catholics believe, they are transubstantiated into the body and blood of the Christ. When a number is consecrated as a measure of gross domestic product, we economists believe, it is transubstantiated into exactly that. An economist is one who accepts a screwdriver from the appropriate authorities, and because it is clearly labelled "hammer" uses it to drive nails.

We are under a dark cloud, but it has a silver lining. We may well not pass collectively into oblivion: we may be remembered for centuries to come, displacing the late scholastics as the canonical example of utterly useless scholars – and Herostratus, after all, had a point.

2. What can be done

Clearly, Italy's fiscal policy is constrained by absurdity; but absurdity creates opportunities as well as constraints, and it would be well to take advantage of them. Public spending is limited by the Maastricht cap to the deficit, which cannot exceed 3 percent of GDP; the easiest way to create room for additional spending, obviously, is to increase GDP. We Italians have done it once before, by inflating GDP to allow for our robust black economy; that bolt is shot, this time we must look elsewhere.

An obvious solution is suggested by the man-marries-housekeeper quirk of our GDP statistics. Mandate that every husband pay his wife for her conjugal services, and GDP balloons. The difficulty here is not in the accounting, but in our culture: the time-honoured distinction between honest and "fallen" women may be more fiction than fact (Wright 1994), but Italy's *bien-pensants* may not be ready to abandon it.

But the broader point is that Italy's GDP can be raised by increasing *female labor-force participation*, as the bureaucrats define it, and that point stands. To an economist production is efficiently allocated among families and firms, and exchanged or not in markets, in a mix that varies with the distribution of skills and of wealth as well as with technology (Pollak 1985); no form is ontologically or permanently superior (witness the Benetton firm's successful revival of the putting-out system, supposedly superseded for all time by the coming of the factory). "Family production" and "market production" are on a par; but as things are now defined a woman "works" only if she works, as men have traditionally worked (at least in industry and the services), outside the home, for pay; her *unpaid* work *inside* the home, traditional women's work, is ignored. The canons handed down to us economists by the bureaucrats to whom we have abandoned our responsibility are based at once on absurdity and on male chauvinism: an immensely strong foundation, for practical purposes indestructible.

The obstacle cannot be overcome, but it can be circumvented. Our GDP excludes the work of our women in domestic care – cooking and cleaning, assisting the aged, the young, and typically the husband, at home a gentleman of leisure – because they do all that for their own family rather than someone else's. To state the problem is to state the solution: *let our women contract to do all they do not for their own family, but for someone else's.*

The practical aspects are simple enough. To a first approximation all women aged 25 to 64 are *de facto* housewives, *also* housewives if they have a paying job. These women are encouraged to enter into registered contracts with other women, to replace them, for pay, in their domestic duties; the pay may be mandated, say 2,000 euros/month for a 12-month year. Straight swaps (I do yours, you do mine) are allowed. Registration is practically costless, a simple matter of entering the fiscal codes of the employer and employee on a governmental web site. Receipts and payments are to be declared; receipts are (income and value-added) tax-free, full-year payments give title to a small (income) tax rebate (say 200 euros/year, or whatever suffices to overcome the transaction cost). Most importantly, to avoid imposing real costs on society, the execution of these contracts is not subject to verification.

Et voilà. There are now some 17.4 million women aged 25 to 64 in Italy. Should they all register the proposed contracts, as desired, with the above figures GDP would rise immediately by some 418 billion euros, almost a quarter of its 2017 level. The permissible Maastricht-limited deficit would increase by 3 percent of that, or some 12.5 billion euros. Again with the above figures, the contracts' tax rebates absorb some 3.5 billion euros; the permissible additional spending is nonetheless some 9 billion euros.

Both components augment employment, and through the usual multiplier effects further increase GDP and permissible spending; but the first-round figures are impressive enough. With spending boosted by 9 billion euros some 1.5 to 2 billion could be siphoned off by elected and appointed officials, 7 to 7.5 billion devoted to such useful projects as, say, repairing Italy's infrastructure.

Everybody wins, who could possibly object?

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