Weekly Market Flash

Adele and the Gross Domestic Product

November 20, 2015

"The Gross National Product measures everything, in short, except that which makes life worthwhile" – Robert F. Kennedy in a campaign speech at the University of Kansas, March 1968.

Stock markets rise and fall, interest rate policies are set and reset, people feel good or not so good about their material fortunes depending on how much this number – Gross Domestic Product (GDP), successor to the slightly differently-calculated Gross National Product (GNP) in favor at the time of Kennedy's speech – manages to grow or decline every three months. Most of the time we here at MVF go along with the rest of the world and obsess over the data when the Bureau of Economic Analysis releases its quarterly reading. It is important, after all, as an input into the models with which we fashion portfolio policy.

Rumour Has It

Every now and then, though, we come across something that calls to mind the critique RFK and many others before and after him have made of the self-styled World's Most Important Number. Today that something – or someone, to be more precise, is Adele, the music superstar whose latest album is due for release today. "25", her first album in nearly five years, is virtually guaranteed to sell like hotcakes (and rightfully so, for we are Adele fans in addition to being research analysts). What it won't be doing (as rumor has it) is reaching the millions of waiting fans via the primary way most of us now listen to music – streaming services like Spotify or Apple Music. Adele is part of a small coterie of megastars, including Taylor Swift and Beyoncé, with the clout to treat the powerful streaming services as she sees fit. More power to her. But the part of all this that gets our analyst radar going is how Spotify and so many other services that account for a rapidly growing slice of our economic decision-making actually show up (or don't show up) in our headline economic calculations.

Don't You Remember

As with most issues of economics, the answer varies depending on how you look at the question (despite the efforts of so many economists to prove otherwise, economics is not a hard science like physics, and there is never one right answer). One way for us to think about the relationship between streaming music and GDP is to remember how we used to do these things. Back in the day there were vinyl LPs, which morphed into cassette tapes, which in turn became compact discs. What all these had in common was that one purchased them in a straightforward way that made a direct contribution to GDP. The $8.99 that one shelled out for "Surrealistic Pillow" or "Dark Side of the Moon" was recorded and valued as economic output, each and every time one went to the record store (remember those?) and purchased a new piece of music. Oh, sure, we made mix tapes and burned CDs. But there was a much more linear relationship between songs and sales.

Chasing Pavements

Those of us who shell out $9.99 per month for Spotify or other streaming services (which of course does not include those on the free side of the "freemium" proposition) assume that these payments also figure into GDP. But that more direct relationship between utility and cost is gone – more specifically, the economic constraint is gone. Most of us would never have gone out and dropped upwards of $2,000 per month on LPs back in the day, no matter how much we liked Carly Simon or the B-52s. But a typical Spotify account can easily reflect that theoretical value, if one were to impute the cost of an actual album to all the music captured and saved in one's account. How, then, do we better express the utility equation, not just for streaming music but for everything else that affords a demonstrably great amount of value relative to the economic constraint involved in utilizing that value? Economist have tried modeling some ways of measuring the relationship between price, utility and physical or virtual output in these newer segments of the economy, but they have yet to make it into a headline number to which analysts can readily turn for a usable periodic data point.

Tired

Like many other numbers that continue to dominate macroeconomic headlines today, GDP first came of age in the 1930s. The unprecedented severity of the Great Depression convinced policymakers and the business community that better tools for understanding economic behavior were necessary. But while today's economy bears very little resemblance to that of the 1930s, the methods of calculation have changed very little. By giving these numbers the status of revealed truths, we are effectively making decisions worth billions of dollars every day based on a tired, outmoded view of economic reality. Robert Kennedy may have overstated the point when he said that gross output measures everything except that which is worthwhile. But economics IS about understanding what a society deems worthwhile – be that Adele songs or dog-sitting services or crowd-sourced reviews of the Thai place down the street – and measuring those things. As the aggregate definition of "worthwhile" changes, the measurement standards must change too. To paraphrase Adele, we'll be waiting.

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