10. GDP as a measure of economic welfare

GDP is an 'accounting' measure used to measure the value of all final goods and services produced in a period of time.

BUT … is it a 'good' measure of economic growth?

Arguments for using GDP as a measure of economic welfare or living standards

- It's a consistent way to measure economic activity over time.
- It's easy to understand (GDP is in $ values).
- Every country calculates its GDP.
- It's a way to compare growth rates across countries and over time.
- GDP data informs the decisions of economic policy-makers e.g. should the Reserve Bank raise interest rates if the growth rate is too high?
- Comprehensive Coverage: GDP takes into account the value of all goods and services produced within an economy, providing a broad measure of economic activity. It includes consumption, investment, government spending, and net exports, capturing a significant portion of economic transactions.

Arguments against using GDP as a measure of economic welfare or living standards

- **GDP doesn't measure the value of many important activitie**s in our economy/society. For example housework, stay home mothers/fathers, volunteering and cash jobs/trades
- **Neglects Income Distribution**: GDP does not reflect the distribution of income within a country. It is possible for a country to have a high GDP but significant income inequality, which may result in unequal benefits and well-being for different segments of the population.

- **Quality of Life**: GDP does not directly measure factors that contribute to the quality of life, such as education, healthcare, leisure time, and overall happiness. It fails to capture the holistic well-being and subjective experiences of individuals.
- **GDP doesn't capture the improved quality** of many goods over time. Each of these 'Macs' retailed for about $3000 when introduced.

- **Ignores Externalities**: GDP does not account for negative externalities, such as environmental degradation, pollution, and social costs. Economic activities that harm the environment or have adverse social consequences can contribute to GDP growth, giving a distorted view of overall welfare.
- **Ignores second hand market** E.g Gumtree, Facebook Marketplace

ALTERNATIVES

There are several alternative measures or indicators that can complement GDP and provide a more comprehensive assessment of economic welfare. Some of these alternatives include:

Human Development Index (HDI): The HDI combines indicators such as life expectancy, education levels, and income to measure overall human development and well-being. It takes into account factors beyond economic output to assess the overall quality of life in a country.

Genuine Progress Indicator (GPI): The GPI adjusts GDP by including factors such as income inequality, environmental costs, and social factors. It aims to provide a more accurate measure of sustainable economic welfare by accounting for the negative externalities and social factors that GDP ignores.

Gross National Happiness (GNH): GNH measures the overall happiness and well-being of a nation's population. It considers various dimensions of well-being, including physical, mental, and social aspects, as well as cultural and environmental values.

NOTE: GDP Per Capita is perhaps a better measure then Real GDP

HDI 2021

2021 data (2022 report) [2]	Change since 2015[20]	Nation	2021 data (2022 report) [2]	Average annual growth (2010–2021) [20]
1	—	🇨🇭 Switzerland	0.962	▲ 0.19%
2	—	🇳🇴 Norway	0.961	▲ 0.19%
3	—	🇮🇸 Iceland	0.959	▲ 0.56%
4	▲ (3)	🇭🇰 Hong Kong	0.952	▲ 0.44%
5	▲ (3)	🇦🇺 Australia	0.951	▲ 0.27%
6	—	🇩🇰 Denmark	0.948	▲ 0.34%
7	▼ (2)	🇸🇪 Sweden	0.947	▲ 0.36%
8	▲ (6)	🇮🇪 Ireland	0.945	▲ 0.40%
9	▼ (5)	🇩🇪 Germany	0.942	▲ 0.16%
10	▼ (1)	🇳🇱 Netherlands	0.941	▲ 0.24%
11	—	🇫🇮 Finland	0.940	▲ 0.29%
12	▼ (1)	🇸🇬 Singapore	0.939	▲ 0.29%
13	▲ (2)	🇧🇪 Belgium	0.937	▲ 0.25%
	▼ (3)	🇳🇿 New Zealand		▲ 0.15%
15	▼ (2)	🇨🇦 Canada	0.936	▲ 0.25%
16	▼ (1)	🇱🇮 Liechtenstein	0.935	▲ 0.22%
17	▲ (3)	🇱🇺 Luxembourg	0.930	▲ 0.18%
18	▼ (3)	🇬🇧 United Kingdom	0.929	▲ 0.17%
19	—	🇯🇵 Japan	0.925	▲ 0.27%
	▲ (3)	🇰🇷 South Korea		▲ 0.35%
21	▼ (3)	🇺🇸 United States	0.921	▲ 0.10%

https://www.weforum.org/agenda/2018/01/gdp-frog-matchbox-david-pilling-growth-delusion/