Fabio Battaglia November 5th, 2024

To GDP or not to GDP? That is the question

Gross Domestic Product (GDP) is routinely quoted as an indicator of whether things are getting better or worse within a society. Yet as **Fabio Battaglia** *explains, it does a spectacularly poor job of measuring our actual wellbeing.*

Have you ever used Wikipedia? Chances are you probably have. But did you know that every time you use Wikipedia you are not only benefitting from a transaction that, economically speaking, counts as zero, but also in fact potentially subtracting from economic output? And that is because you are gaining knowledge for free instead of buying old-fashioned encyclopaedias.

Now, of course things are more complicated than that. For instance, you may use the money you've just saved to buy something else, stimulating other economic areas. But the point here is that certain things are not included in our measures of the economy, of which Gross Domestic Product (GDP) is the most popular one, even though they are of great value to us.

But that is not the only problem. Indeed, GDP also doesn't measure income inequality or the impact of economic growth on the environment. In fact, it turns out that environmental degradation, when caused or accompanied by economic activity, can actually be good from a GDP standpoint.

For instance, say there is a factory that releases toxic chemicals onto a lake and another company needs to come to clean that up. The first one will contribute to economic output and, well, the second one will do, too. As economic growth remains the primary goal of governments globally, it is unsurprising to see that income inequalities and climate change are therefore two of the world's most pressing challenges.

Goods and harms

This leads us to the core of our discussion, namely the fact that GDP measures both goods and harms. A bullet and a life-saving medicine, assuming they cost the same, equally contribute to the

economy even though they clearly do not equally contribute to our quality of life. Even economic activity that is not necessarily negative but follows a negative event will count as a "positive".

For instance, natural disasters (tornadoes, tsunamis, earthquakes – you name it) result in substantial economic losses. However, they also result in economic gains. And that is because while of course a factory that's been destroyed will have to halt production, its very rebuilding will generate economic activity instead. You probably now see why, readapting Oscar Wilde's words, people often say that "an economist is someone who knows the price of everything and the value of nothing".

But the story doesn't end here, as GDP also in some cases includes things that are prohibited in the countries in which they are produced. For instance, about a decade ago EU countries started including in their GDP calculations things like prostitution, the production and trafficking of drugs and the smuggling of tobacco and alcohol, *even if illegal*. In other words, the more drugs we take, the more GDP increases.

But what's more interesting by far is how these things are measured. Take the case of drugs. The UK and Italy include the same drugs in their computations, to which Italy also adds LSD. So, if you do LSD in the UK you don't contribute to the UK economy, but if you do LSD in Italy, you're making the country richer!

Or take prostitution. The UK only counts female prostitutes going with male clients. And it measures how much clients are charged in a rather odd way – no, statisticians didn't do any "fieldwork", instead, they took prices from a website called "PunterNet", which apparently is like a TripAdvisor where men rate the services they received.

This is just one among many examples that shows that GDP – like any other statistic – is far from objective but rather a product of our own mind. Statistics are political and social constructs, and what is to be included or excluded, as well as how to measure it, is as arbitrary as deciding what socks to wear.

Measuring wellbeing

Our discussion so far shows that what is good for the economy may not necessarily be good for society, and vice versa. And yet, GDP is the yardstick policymakers and journalists constantly use to measure whether things are getting better or worse, the underlying assumption being that plus is always good and minus is always bad. This has sparked a debate worldwide about how to better measure wellbeing, which has led to the development of a vast number of metrics that aim to complement or replace GDP and put wellbeing at the heart of policymaking.

Among the most active countries internationally in this debate are Scotland and Italy. Scotland launched its wellbeing framework (the National Performance Framework) in 2007, well before many

other countries. Italy has a much longer history of wellbeing measurement, but only launched its official framework (the *Benessere Equo e Sostenibile*) in 2013. Both have received international accolades, and you've probably seen the former First Minister of Scotland, Nicola Sturgeon, talking about the importance of wellbeing in what has become a quite popular TED talk.

However, all that glitters is not gold. In fact, in a new study, based on conversations that I had with more than a hundred people (ranging from government officials and ministers to politicians and journalists), I find the impact of both frameworks has been minimal, if there's been any at all.

Some of those whom I interviewed didn't even know that these frameworks existed. Others were more familiar but still struggled to identify examples in which they or someone else had used them. Still others would occasionally mention a few, but their examples would tend to be vague, the link with either framework and how it was used unclear, or remarkable yet merely anecdotal.

Is this surprising? Sadly not. There's a plethora of evidence from the Global North to the Global South showing that these metrics have had little to no impact on policymaking. My research on media coverage similarly shows that wellbeing metrics are not part of public debate, in contrast to GDP and economic growth, which are always being talked about. The chance of hearing about wellbeing metrics in the media is close to zero – it is indeed 30 times more likely to hear the word *elephant*.

There are multiple reasons why we got to this point, or better why we've struggled to move beyond it. Most prominent among these is the low awareness of GDP's flaws and of wellbeing metrics. This has been compounded by the illogical distinction most people make between GDP as an indicator and economic growth as an objective, as if the limitations of the former don't apply to the latter. Which is like saying that some piano keys are broken but pretending that any music that will be played on it will nevertheless be pleasant to hear.

With any luck, this article will have helped you get a better understanding of what GDP measures and what it doesn't, and why it shouldn't be used as a measure of wellbeing, or in fact considered as an objective measure of the economy itself. As Shakespeare once said, "to GDP or not to GDP? That is the question" – and hopefully you've got a better answer now.

For more information, see the author's accompanying paper in Social Policy & Administration

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Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: Sergii Figurnyi / Shutterstock.com

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