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### Wellbeing as an Alternative to GDP?

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## Wellbeing as an Alternative to GDP?<sup>1</sup>

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### Abstract

Gross domestic product is the most commonly used measure of development, both in academia as well as wider society discourse. It describes the material production of a society within the course of a calendar year. While useful in informing policy and business decisions it is markedly limited by its one-dimensional nature. Well-being on the other hand rather than being the absence of illness is instead a long-term condition that allows an individual or group to flourish and perform well within society. Ensuring that public policy reflects this has been a central tent of modern economics post-1990 (Quick, 2020). Today, governing authorities and economists are increasingly using tools such as 'happiness' upon which to base spending and policy decisions. The main question that arises is not whether GDP is a perfect indicator of a country's economic progress but whether it is the best approach to judge the overall prosperity and wellbeing of a country. In this paper we explore GDP and well-being, the risk that this valuable economic metric is under as well as GDP alternatives.

**Keywords:** GDP, wellbeing, economy, development, growth, AI.

### Introduction: What is GDP, what is Wellbeing?

The gross domestic product (GDP) is the most generally used indicator for the size of an economy. GDP can be calculated for a single country, a region (e.g., Burgundy in France or Tuscany in Italy), or for a group of countries (e.g., the European Union). The GDP is the total value created in an economy. The added value is the difference between the services and goods value generated and the services and goods value necessary to manufacture them, also known as consumption expenditure (Bank of England, 2019; International Monetary Fund, 2020, 2023).

It is an initiative or measure to measure all of the economic activity of individuals, companies, and governments. GDP allows businesses to decide whether to recruit more employees and grow, as well as the government to decide how much to spend and tax. In the United Kingdom, the latest GDP statistics are released each month, but quarterly statistics spanning three months are the most thoroughly followed. In an emergent economy, the quarterly GDP will be marginally higher than the previous quarter, showing that employees are working more and getting slightly richer (on average) (BBC News, 2021).

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Health is not just the lack of disease or disability; it is a human right. Health in the terms of wellbeing, from the ancient times, has been related with a sound mind, body and psyche (Efthymiou, 2017) Nevertheless, the predominant definition of health, focuses on physical health and disease symptoms (Efthymiou, 2022) Well-being is a broad term. Although dictionary definitions for well – being vary, the concepts of pleasure, health, and wealth appear frequently. It is impossible to put a monetary value on happiness. There are numerical indicators for assessing the many components of well-being, and it is fair to claim that the overall state of well-being has declined or grown if an indicator set moves in a specific direction. Therefore, when several indicators move in opposite directions, it is impossible to assess if well-being is deteriorating or improving unless these indications are represented in a general metric (Boarini, Johansson, and d'Ercole, 2006). Furthermore, it was stated by Davis (2019) that well-being is the experience of prosperity, health, and happiness. Well-being is a long-term condition that permits an individual or population to grow and flourish (Ruggeri et al., 2020). In the 1990s and 2000s, the movement of the new economy advocated that economics must prioritize wellbeing over economic development (Quick, 2020). The main objective of a well-being economy is to provide sustained well-being with fairness and equity for people and the rest of the environment. This is in clear contrast to the present economies, which are committed to a very limited vision of progress based on excessive GDP growth (Costanza et al., 2018).

### **What's wrong with GDP?**

However, GDP is currently at risk. National authorities and economists in the United Kingdom are increasingly discussing the use of alternative criteria, such as "happiness," to assess the status of the country. A 2009 study on GDP alternatives became a worldwide wonk phenomenon. In October 2011, a club of the world's wealthy states, i.e., the Organization of Economic Cooperation and Development (OECD), followed with a "How's Life?" assessment on "well-being" in its member states. Since 2007, the private institute "Legatum" has released a worldwide Prosperity Index that is a complex blend of financial and other variables (Fox, 2012).

According to Pettinger (2021) GDP is a good indicator of the full amount of saleable services and goods created and used in an economy. It is a valuable economic metric, particularly for monitoring the financial cycle, but it has frequently become a synonym for economic well-being. This, however, was never its planned goal. In 1968, Robert Kennedy stated that GDP "measures everything in short, except that which makes life worthwhile" (para. 1). GDP may be a deceptive living standards indicator since it neglects several crucial concerns like education levels, the environment, inequality, non-marketable commodities, air quality, leisure time, and life expectancy. GDP may also motivate

society to increase materialistic spending, which is detrimental to the environment and lowers life quality.

### **What are the alternatives?**

Academic economists have long emphasised GDP limitations, particularly as a measure of the digital economy, environmental sustainability, and human well-being. Consequently, the UN and the OECD have established alternative metrics, "the Human Development Index" and "the Better Life Index," to supplement conventional monitoring of national income by offering indicators dashboards that specifically track human wellbeing.

These multidimensional variables are extremely useful right now, because societies and policymakers, in general, want to directly secure human development and functionality, need to recognise what the failures to human wellbeing are (and who will bear the burden), and should make choices before national income data becomes available. In economics, there are two frameworks for achieving this: one established by Amartya Sen and colleagues that are now the foundation for sustainable objectives, and the other concentrating on identifying the factors of subjective wellbeing. These methods have diverse philosophical bases, but in policy contexts, they share collective goals and may be employed to achieve complementary and reinforcing effects by assisting in the understanding of important factors of well-being (Anand, 2020).

It was stated in the study of Sustainability for All (n.d.) that many standard economic variables do not accurately capture the true narrative behind "well-being." Although the economy is undoubtedly vital for social development, evaluating it simply through economic, instead of a human, considerations might obscure important environmental and social variables that impact the real-life situations that humans encounter. Different measures are used to assess well-being by organisations like universities, financial companies, national governments, the United Nations, and NGO platforms. These try to relate economic development to social development without establishing any economic moral goals.

Apart from GDP per capita, there are a few economic indicators that can provide us with real information about the lives of people, like financial transparency, the Gini Coefficient, the ratio of military budgets, the bank asset ratio to GDP, economic and sustainable growth, reliance on foreign debt, etc. These variables are especially important for analysing social well-being beyond impersonal GDP data because they have a direct impact on a taxpayer's fiscal contribution to the state and the returns they get.

Furthermore, as indicated by Utrecht University (n.d.), GDP has been the major reported variable of overall economic advancement and development. Economic growth, however, is not the sole indicator of human well-being. Beyond the simple financial aspect, society is multifaceted and functions in several ways. The Better Wellbeing Index (BWI) seeks to deliver an alternative and more accurate measure that takes into consideration the multidimensionality and complexity of society. The BWI is a compound indicator that includes eleven variables that contribute to human well-being. It provides a trustworthy and stable indication not just for the Netherlands but also for worldwide measurement by combining with the OECD Better Life Index.

But in the study of Boarini, Johansson, and d'Ercole (2006), it was found that economists frequently judge well-being using GDP per capita measurements. Other better measurements of economic resources occur within the framework of national accounts, but they are closely related to GDP per capita and are not as widely available. They reviewed the major sustainability and progress indicators such as "Happy Country Futures Indicators, Index of Sustainable Economic Welfare, Planet Index, Genuine Progress Indicator (GPI), Sustainability Index, Physical Quality of Life Index (PQLI), Calvert-Henderson Quality of Life Indicators, Human Development Index (HDI), Gross National Happiness (GNH), Exergy, Emergy, Wellbeing Index (WI), Genuine Savings (GS), and Green Gross Domestic Products." Expanding examples of economic resource metrics to include spare time, income distribution within households, and distributional concerns suggest that cross-country rankings based on these indicators and GDP per capita are typically similar, though they have changed considerably with time.

Levels of most particular socioeconomic circumstances are highly connected to GDP per capita among OECD nations, although changes with time are not. Therefore, survey data on life satisfaction and happiness in OECD nations are very weakly associated with GDP per capita levels. Generally, measurements of economic growth and GDP per capita are crucial for any well-being assessment, but they must be supplemented by measures of other well-being dimensions to provide a full view of well-being.

Wallace et al. (2020) stated that Gross Domestic Wellbeing (GDWe) is a more comprehensive measure of social development than GDP. Using the data and methodology from the "National Statistics Measures of National Wellbeing Dashboard" office, the Trust created a tool that offers a single figure for GDWe in England and displays it against GDP over the last six years.

Pettinger (2021) highlighted some of the alternatives to GDP, including "Gross Domestic Happiness (GDH), Human Poverty Index (HPI), Genuine Progress Indicator (GPI), Index of Human

Development (HDI), Green Gross Domestic Product (green GGDP or GDP), Happy Planet Index-measure of environmental efficiency for supporting well-being, Index of Sustainable Economic Welfare (ISEW), Well-Being index, and Median income (average wages)." Further, Hawkes (2021) highlighted GDP alternatives as "Human Thriving Places Index (TPI), Inclusive Wealth Index (IWI), Genuine Savings Indicator (GSI), Genuine Progress Indicator (GPI), Happy Planet Index (HPI), Development Index (HDI), Better Life Index (BLI), and Green GDP."

### **Going beyond GDP with wellbeing**

The main question that arises here is not whether GDP is a perfect indicator of a country's economic progress but whether it is the best approach to judge the overall prosperity and wellbeing of a country.

Economists are looking increasingly beyond GDP to assess the health of a society. According to Anand (2020), a few governments have incorporated attributes of the well-being agenda into their work (Bhutan, Australia, New Zealand, the United Kingdom, and France are prominent examples), and it is normal for these governments to wonder what the impacts are on their economic recovery plans. The government of Scotland has formed an advisory committee to assist them in developing such a location, and invitations have been made to examine what policies might be adopted. Beyond GDP intends to generate statistics that are as clear and attractive as GDP while also taking into account the environmental and social dimensions of growth.

The status of a country is usually referenced in rankings and surveys in terms of GDP, the monetary worth of all services and goods in an economy. A high GDP suggests a strong economy, whereas a low one shows economic instability. Although American economist Simon Kuznets cautioned at the time that GDP must not be used as a measure of social well-being, the term has frequently become just a synonym for that. Is economic growth, however, the greatest method to assess the total worth of a country? And, if not, what metrics must be employed alternatively?

We now know that concentrating just on GDP and monetary benefit to define progress overlooks the negative consequences of economic expansion on society, like income inequality and climate change. It is essential to understand GDP's limits and expand our development definition to include the quality of life in society. A lot of nations are beginning to do so. When our development indicators go beyond an antagonistic need for more output, our policy initiatives will become more associated with the life aspects that people really value, and society will be well served. However, before we can build on the GDP concept, we must first understand where it came from (Kapoor and Debroy, 2019).

## **The Origins of GDP**

The modern concept of GDP, like several other innovations that surround us, was created during wartime. Whereas “Simon Kuznets” is primarily known for defining Gross Domestic Product (because in 1932 he attempted to measure the USA's country income to understand the full scope of the "Great Depression"), the current idea of GDP was established during World War II by “John Maynard Keynes”. Keynes, who was working in the Treasury of United Kingdom at the time, released a study in 1940, “one year into the war with Germany,” protesting the insufficiency of economic figures in calculating what the economy of Britain might produce with the accessible resources. He stated that the scarcity of data made estimating the capability of Britain for mobilisation and war impossible.

He stated that national income must be measured as the sum of private investment, consumption, and government expenditure. He opposed the version of Kuznets that contained the revenue of the government but not the expenditure of the government in his estimation. Keynes recognised that when the government's wartime expenditures were not factored into the computation of government revenue, GDP would fall without actual economic improvement. His technique of estimating GDP, which comprises the expenditure of the government in a state's revenue and was inspired by war period necessities, swiftly found popularity worldwide, even after the war ended. It is still happening today (Kapoor and Debroy, 2019).

### **What causes GDP to fall short?**

However, a metric designed to measure the wartime manufacturing capacity of a country has specific limitations in peacetime. To begin, Gross Domestic Product (GDP) is an accumulated statistic that comprises the value of the services and goods manufactured in a country over a certain period. There is no space for the bad or good consequences produced throughout the development and manufacturing procedures. GDP, for example, includes the car's value but does not account for the discharges they produce; it includes the value of sweet drinks but does not account for the health harm they create; and it contains the value of constructing new urban areas but excludes the value of the essential forests they substitute.

Environmental deterioration is a substantial factor that GDP cannot account for. The manufacturing of more items increases the GDP of an economy regardless of the environmental destruction done by it. Thus, in terms of GDP, India is regarded to be on the rise, even though the winters of Delhi are getting smog polluted and the lakes of Bengaluru are more susceptible to flames. To achieve a more accurate picture of progress, new economies require a better well-being measure that incorporates

these factors into account. Extending the assessment scope to add factors would assist in the development of policies focused on addressing them.

GDP does not succeed in representing the income supply throughout society, which is becoming significantly crucial in modern society with increasing inequality levels in both advanced and emerging countries. It is not possible to distinguish between an equal and unequal society if their financial sizes are comparable. Rising disparity is creating public division and unhappiness, so policymakers must consider these problems when judging progress (Elliott et al., 2017).

Another aspect of modern economies that renders GDP outdated is its overemphasis on productivity. The service economy's expansion, from grocery buying on Amazon to cab booking on Uber, is increasingly driving today's society. As the value of experience overtakes the value of constant output, the GDP concept is rapidly becoming obsolete. We live in an age where social media provides knowledge troves and pleasure at no cost, the worth of which cannot be quantified. Our metrics of economic development and growth must also respond to these variations to provide a more precise depiction of the modern economy (Fanning & O'Neill, 2019).

The main aim is to create a more equal and just society that is financially sustainable and gives individuals a worthwhile life quality. Changes in what we assess and consider to be a growth barometer will result in changes in how we design our policies. Economic growth will be merely another instrument to guide the economy in the way that society determines in an economy that prioritises well-being. In this economy, GDP percentage figures, which are rarely related to the average individual's life, will no longer occupy the main stage. Instead, the emphasis would shift to more desirable and genuine well-being factors (Kapoor and Debroy, 2019).

In conclusion, we can say that GDP was not developed to measure citizens' well-being or welfare. It was developed to measure production capability and economic progress. However, economists and politicians often utilise GDP as an all-incorporating measure to represent a country's... more. The replacement of GDP by a corrected GDP or another aggregate welfare indicator means the effective removal of it. Real GDP per capita is an important metric for measuring a country's economic status over time or in comparison to other countries.

This is true regardless of whether the decision is made by politicians, public officials, macro-economists, or the media. Standards of living have increased as a consequence of the global economic boom. However, sophisticated economies have lost reality picture that GDP, the conventional tool of economic development, just shows the nation's economic size and does not reflect its welfare. Therefore, economists and politicians typically see GDP per capita or GDP, in certain cases, as the



all-encompassing number to describe a country's growth, integrating economic advancement with societal well-being. Consequently, policies that encourage economic growth are seen as beneficial to society.

Technology is changing the manner in which we organise our societies, from the provision of necessary goods such as foods to national security. Outside of the material economic benefits it similarly can have substantive positive impact on a social level, through its role in making our urban spaces more efficient, cleaner and quieter. Not to mention the major space technology will inhabit in the quest for clean energy, environmentally sustainable waste disposal strategies and reducing pollution, noise and traffic congestion (Efthymiou & Egleton, 2023). As AI shapes emerging economies, it raises the well-known risks of disruption, misinformation and surveillance, but also promises many potential benefits. Ethical issues underlie the implementation of artificial intelligence (Vousinas et al., 2022).

Several experts believe that incorporating these alternative indicators into studies that examine well-being might provide a much more precise picture of people's experiences. The only method to remove GDP from its present position is to begin measuring everything that does "make life worthwhile." Whatever economic measure is adopted, its connection to well-being will be neither monotonic nor exact. Consequently, any full evaluation of well-being cannot rely just on GDP or other financial measures. These must be supplemented with other indicators of environmental, social situations and Artificial Intelligence.

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