

Questions and Answers on Gross Domestic Product (GDP)

1) What is GDP?

GDP is the gross domestic product of a country. It measures the total final market value of all goods and services produced within a country during a given period. GDP is the most frequently used indicator of market activity and is most often measured on an annual or quarterly basis to gauge the growth of a country's economic activity between one period and another. GDP is also a measure of total consumer, investment and government spending plus the value of exports minus imports.

GDP is the most widely used indicator from the System of National Accounts (SNA). Its methodology is standardised internationally thus enabling comparison between countries anywhere in the world. GDP was created in the wake of the great depression and second world war to provide decision-makers with a measure of economic performance and activity.

2) What are the limits of GDP?

There is nothing wrong with GDP itself. It is a valuable economic indicator which serves an important purpose in economic policy making. Due to the implicit link between economic growth and aspects of well-being such as employment and consumption, GDP is often regarded as a proxy indicator of human development and well-being. Within the existing framework of national accounts the information covered could be broadened by putting more emphasis on net domestic product such as GDP corrected for depreciation or by better measuring nations' balance sheets.

But the way GDP takes into account social and environmental issues in measuring economic growth is questionable. GDP does not factor in a number of elements important in determining the well-being of people. For example, it overlooks the value of certain non-market goods and services such as natural resources and unpaid activities and leisure. GDP highlights average income which may not correspond to the actual income of any specific group of the population. Average income provides no indication about the distribution of income between citizen. And it focuses on short-term economic activities rather than longer-term sustainable development aspects such as the growth of natural, economic and human capital.

Most other mainstream economic indicators are also limited in the way they tackle non-economic issues such as progress and well-being. It is not alternatives to GDP that are needed, but additional indicators to complement it. It is still important to know how many goods and services are produced or how strong an economy is. But more needs to be taken into account, such as the state of the environment, the evolution of social issues, and progress towards sustainable development.

Citizens are as a general rule better off if they are richer. However, the quality of life or well-being also depends on the type of goods consumed, the amount of leisure time available, the relationship with families and friends, and the health of the surrounding environment. Today a greater number of people feel their well-being is undermined by too much pressure of work, unemployment, family break-ups, pollution and climate change. This is why policy makers are interested in having more statistics that address these issues instead of pure economic indicators.

3) What other indicators besides GDP are there to measure wealth and well-being?

To compensate for the limits of GDP a number of alternative and complementary indicators have been developed. These can be grouped according to the aspects of social progress they cover.

Some indicators such as the [Genuine Progress Indicator](#) considers additional economic factors not covered by GDP while others such as the [Genuine Savings](#) approach look at long-term capital accumulation, including the value of natural, economic and social capital. Another approach is to produce a single index – such as the [Human Development Index](#) - which weighs a number of sub-indicators by combining measures of life expectancy, literacy, and education in addition to GDP. Indicator sets such as those they comprise environmental, economic and social indicators are another way to complement the use of GDP. Such an indicator is being developed in Canada (the [Canadian Index of Well-being](#)).

Some countries have also applied the internationally recognised environmental and economic national accounting standards found in the

[Handbook of National Accounting: Integrated Environmental and Economic Accounting 2003 \(SEEA 2003\)](#).

More information on various indexes can be found on the Beyond GDP website:

<http://www.beyond-gdp.eu/links.html>

4) What is the European Union doing to move beyond GDP?

The European Union is committed in taking leadership in the move to integrate non-economic factors into policy-making beyond those currently used by mainstream economic indicators. A preliminary version of an integrated environmental economic accounting system is due to be operational by 2010. The special importance of this system is that it would include stock taking of natural resources and human and social capital rather than just the use of these resources. The system would also focus on the role of eco-systems in providing welfare.

The EU is also committed to developing an indicator to measure environmental sustainability and to use integrated accounting and other indicators to improve policy-making.

The European initiatives are being co-ordinated by the European Commission as part of a global process linked to the Global Project launched at the Istanbul World Forum (June 2007) where the European Commission, the OECD, the Organisation of the Islamic Conference, the United Nations, the UN Development Programme, and the World Bank made a commitment to measure and foster the progress of societies in all dimensions with the ultimate goal of improving policy making, democracy and citizens' well-being.

5) How can measure wealth and well-being?

GDP does not measure wealth. It measures consumption and investments in a given year, not how rich people are, or how much wealth society has through the accumulation of buildings, machinery, consumer goods, schools, universities, road and rail networks, and art.

There are very few statistics on material wealth and even fewer on natural, environmental, social and cultural wealth. Material wealth too often overshadows the pursuit of non-material wealth. Access to improved data on non-material and non-economic wealth would help citizens and policy-makers better balance the various aspects of well-being. This is what sustainable development is all about.

Other facets of well-being such as happiness are more difficult to measure. But researchers have now developed reliable ways of measuring how satisfied people are with life in general and with specific aspects such as the level of satisfaction with work, family, friends, neighbourhood, income and wealth, and country and government. This research is important for policy-makers in implementing policies that foster a higher degree of public satisfaction and happiness.

Further information on the GDP is available at:

<http://www.beyond-gdp.eu/links.html>

Annex

Gross domestic product (2007) and other indicators

Member State	GDP per capita (€)	GDP rank (EU)	Ecological footprint /person (hectares)	Ecological footprint rank (EU)	Healthy life indicator (years)	Healthy life Rank (EU)	Unemployment rate (%)	Unemployment rank (EU)	Greenhouse gas emissions per capita (tonnes)	Greenhouse gas Emissions Rank (EU)	Happy life (years)	Happy life rank (EU)
Luxembourg	81,511	1	NA	NA	71.5	6	4.4	3	NA	NA	59.0	5
Ireland	44,676	2	5.0	16	69.8	15	4.4	2	17.2	24	58.3	7
Netherlands	36,937	3	4.4	11	71.2	8	3.9	1	13.4	19	58.7	6
Denmark	36,920	4	5.8	20	69.8	14	4.5	5	12.9	17	62.7	1
Austria	36,368	5	4.9	13	71.4	7	4.8	6	11.2	15	61.0	2
Finland	35,559	6	7.8	23	71.1	10	7.7	18	15.6	22	59.8	4
United Kingdom	35,486	7	5.6	19	70.6	13	5.4	8	11.0	14	55.2	11
Belgium	34,749	8	NA	NA	71.1	9	8.2	21	14.3	20	56.5	9
Sweden	34,735	9	6.1	21	73.3	1	4.8	7	7.8	4	60.8	3
Greece	33,004	10	5.0	15	71.0	11	8.9	23	12.9	18	49.6	17
OECD Average	32,330		5.1		70.2		6.2		13.0		53.9	
France	31,825	11	5.6	18	72.0	4	9.5	25	9.0	8	51.4	15
Germany	31,390	12	4.5	12	71.8	5	8.1	20	12.3	16	55.7	10
Italy	31,051	13	4.2	8	72.7	2	6.8	13	10.0	11	54.2	12
Cyprus	29,870	14	NA	NA	67.6	19	4.5	4	NA	NA	53.7	14
EU-27 Average	28,899		4.6		68.9		7.1		10.6		49.7	
Spain	27,914	15	5.4	17	72.6	3	8.5	22	10.6	13	54.1	13
Slovenia	24,571	16	3.4	6	69.5	16	6.0	11	10.0	10	50.4	16
Czech Republic	23,399	17	4.9	14	68.4	18	7.1	14	14.4	21	47.9	18
Portugal	22,937	18	4.2	9	69.2	17	7.7	19	8.0	5	45.7	19
Malta	22,239	19	NA	NA	71.0	12	7.3	15	NA	NA	58.2	8
Hungary	20,047	20	3.5	7	64.9	22	7.5	17	8.4	6	40.0	21
Estonia	19,692	21	6.5	22	64.1	24	5.9	10	15.9	23	35.8	23
Slovakia	17,913	22	3.2	4	66.2	20	13.4	26	9.4	9	40.0	22
Lithuania	16,373	23	4.4	10	63.3	25	5.6	9	5.6	2	33.2	25
Latvia	15,806	24	2.6	2	62.8	27	6.8	12	4.7	1	32.9	26
Poland	15,149	25	3.3	5	65.8	21	13.8	27	10.1	12	43.1	20
Romania	10,125	26	2.4	1	63.1	26	7.3	16	6.9	3	35.2	24
Bulgaria	10,022	27	3.1	3	64.6	23	9.0	24	9.0	7	30.0	27
BRIC ¹ Average	8,444		2.2		59.0		NA		NA		39.6	

Source: IMF (2007) and WWF (2003), WHO 2002, Eurostat (2007), UNFCCC (2004) and US Census Bureau, and Veenhoven (2006).

¹BRIC: Brazil, Russia, India and China.