

GDP may reflect quality of life after all



After studying the gross domestic product of 140 nations, economist and commentator Justin Wolfers says GDP turns out to be a good indicator of a country's well-being.

Justin Wolfers (Wharton School, Univ. of Pennsylvania)

TEXT OF COMMENTARY

Bob Moon: It was pretty easy to become overwhelmed with all that's happened in the past year. Between financial bailouts and health care reform, 2009 had plenty of headlines to digest. But of course, that wasn't all of it. A lot of other things happened that didn't get the same kind of attention. So we asked a few of our regular commentators to muse on some of those stories. Justin Wolfers points to a report from the French government on gross domestic product, which may have underestimated how powerful a measure the GDP really is.

JUSTIN WOLFERS: When French President Sarkozy became frustrated with measures of economic performance, he responded as any French leader would. He commissioned a panel to investigate.

Sarkozy's commission noted an array of problems with gross domestic product, or GDP. It can grow despite, or even because, pollution is rising, families are falling apart, and violence is escalating. On the flipside, GDP can stagnate as people stop to smell the roses, enjoy more time with friends, and spend less time engaged in GDP-enhancing work. Bobby Kennedy famously argued that GDP, "measures everything . . . except that which makes life worthwhile."

The concern is that if policymakers target what we measure, rather than what is worthwhile, we'll be led astray. It's an important point. At least in theory.

But in practice, gross domestic product has been a remarkable indicator of the health of nations. Betsey Stevenson and I have recently analyzed data across over 140 countries from the new Gallup World Poll. And countries with greater GDP per capita have people who are more satisfied and more likely to report experiencing enjoyment, daily laughter, and being treated with

respect. If you live in a high GDP country, you are less likely to feel pain, depression or boredom on any given day.

Beyond these subjective measures, higher GDP also corresponds with more education, and increased life expectancy. In theory, these things aren't counted in GDP. But in practice, the GDP indices paint roughly the same picture as very broad measures of a country's well-being, like the U.N.'s Human Development Index.

And even in this past tumultuous year, the GDP data have given the right signals. The stagnation in GDP that you read about in the business pages is just as evident in the happiness data.

I have mixed feelings about the argument I'm making. I agree with the Sarkozy commission that the official statistics have problems. And no economist would suggest a dogged pursuit of growing GDP at any cost. But it's worth remembering that on the whole, GDP provides a useful barometer of our economic health. And I'm hoping we'll finally see that barometer turn up in 2010.

MOON: Justin Wolfers is an associate professor of economics at the University of Pennsylvania's Wharton School of Business.

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- By David Oehl

From Albany, NY, 01/02/2010

I heard this commentary on the radio a few days ago. Anthropologists have consistently rated indigenous societies as those with the highest contentment and quality of life, mostly due to the rich cultural and social life of such societies.

As everyone else here has noted, you can destroy the ecosystem and still have positive GDP growth. That is what has happened here in the US. We have enough money to cover over the cracks in the ecosystem we have created. We solve topsoil erosion by applying synthetic fertilizer. If our water supply is contaminated, we just build big treatment facilities.

Furthermore, here in the US, GDP has experience lots of growth since 1950, yet the general life satisfaction has stagnated. I think Wolfers' own research supports this. This may not be true in other developed nations, but it is true here.

By Niranjan Agarwal

From Hyderabad, 12/29/2009

You have mentioned 'GDP has been a remarkable indicator of the health of nations', what about factors such as:

Deteriorating Environmental Conditions in the nations due to the growth or Availability of basic amenities such as education, healthcare, infrastructure, communication to the majority of population.

By Jonathan Lovelace

From Milan, MI, 12/28/2009

You said that "no economist would suggest a dogged pursuit of growing GDP at any cost." I can't think of a single statistic, in any field, that any honest expert would recommend pursuing at any cost; statistics like GDP, productivity, and so on are entirely too easy to manipulate for them to be used as reliable direct indicators of what we really want to know.

By MARK JOHNSON

12/28/2009

I am surprised that President Sarkozy has not heard of the Genuine Progress Indicator (GPI) which has been adopted by some European countries as a way to measure standard of living and quality of life in their countries. It takes into account positive qualitative factors such as amount of leisure and vacation time and negative quality of life factors such as pollution. Please go to www.investopedia.com and search for Genuine Progress Indicator and read more about this revolutionary and insightful measure economic health.