Significance of gdp to wealth and wellbeing

Significance of GDP to wealth and wellbeing: Reassessing Pigou`s Paradox

In performance oriented countries, systems of measure are used to steer allocation of resources to its citizens. This metrics are meant to establish how the country does on average, with relations to its citizen`s wellbeing. Pigou on, The Economics of welfare-The National Dividend, posed a Paradox; thus, if a man marries his housekeeper or cook, the national dividend is diminished (Pigou, 1962). In this foregoing paradox, national dividend is termed as the objective income of a community which can be measured in monetary value. Without considering the unchanged services or addition of other services offered, for examples sexual which would increase the well-being of the husband, he argued that, with regards to the national income which is similar to the national dividend, services rendered for money in form of a wage as an employee are included in the national income, but when the same services are rendered without a wage to the husband they are not entered into the national dividend, consequently lessening the countries national dividend. Unfortunately, some of this un-included services are interwoven; hence both bought and unbought services are sometimes similar and transformable. On further illustration of using the measuring rod of money as a measure of national dividend, Pigou posed another paradox. If a man rents an office, the services he accrues from it are included in the national dividend; nonetheless, if he is handed the office as a gift the services rendered are not included in the national dividend (Pigou, 1962)

As illustrated in the irony above, GDP, which I will be expounding more in this essay, does not entirely capture the wellbeing of a country. Just as Robert Kennedy said, “ GDP measures everything except that which makes life worthwhile" (Townsend, 2014), I will argue that the current measure of GDP is important, but also requires inclusion of other indexes to measure an individual's non-monetary contributions which increase their wellbeing, subsequently adding value to the economy both directly and indirectly. Social and economic changes have contributed to the discounting of GDP as the only barometer to measuring total well-fare (Stiglitz, Sen and Fitoussi, 2010). First, I will discuss different definitions of GDP. Secondly, explain significance of both wealth and wellbeing and their implication to the current measures used to quantify them. Thirdly, describe limitations to the current measure of well-being in relation to wealth, household income and Illegal trade. Fourthly, provide alternative measures already researched and recommended to be of great significance in understanding the welfare of a country and measures to be taken so as to integrate them in the representation of a counties wellbeing.

Gross Domestic Product

According to Organisation for Economic Cooperation and Development (OECD), Gross Domestic Product (GDP) is the total amount of production equal to the sum of gross value added by a countries establishments undertaking production, it includes taxes but subsidies are subtracted in those products which value has not been included in their outputs(Data. oecd. org, 2014). Stglitz on the other hand, sums up GDP as the measure of market production. While keeping prices fixed, it captures the quantity of finished goods consumed and valuing them with their prices hence capturing the wellbeing of a society at a given time. Unfortunately this measure has been portrayed to represent the total wellbeing of a society (Stiglitz, Sen and

Fitoussi, 2010). Significantly, the above ironies posed by Pigou elicit fundamental question on whether wealth and wellbeing of an individual in a country should only be measured with a monetary rod.

Well-being and GDP

Without arguing for a utopian economic market, our economy today has become complex. Apart from being multicultural, the drive for profit has surpassed consumption for need, resulting in distortions in perceptions of human beings and limiting them to consumers with a price tag; a price on human life. The current market not only churns out goods for consumption, but also exerts into the society ideas and cultures not experienced before, there for, determiners of society’s wellbeing should factor in this aspects, for a definitive measure (Patel, n. d.). Seaford in his article, what do we mean by well-being, describes well-being as the state produced by a good life as result of accessing resources for a comfortable life (Seaford, 2014) while the Oxford Dictionary defines well-being as a state of being comfortable, healthy and happy (Oxforddictionaries. com, 2014). On the other hand Stiglitz looks to encompass several factors that should be considered simultaneously. This include: health, education, relationships, social connections, education, environment, political voice and governance, substantive living standard (consumption, wealth and income) and security (Stiglitz, Sen and Fitoussi, 2010, P. 15). Wealth on the other hand is the abundance of valuable possessions or money. Adam smith?

Limitations of GDP as a measure of well-being

Accumulation of wealth (Wealth is the abundance of valuable possessions or money (Oxforddictionaries. com, 2014)) has been perceived as the only factor of economic growth and well-being; thus, the impression that all the limitations that we are currently entangled in could be solved by becoming more financially well off. This flowed perception has driven an increase in cost rather than benefits (Hill and Myatt, 2010). Even when wealth is considered, not all changes are ascertained due to the lack of a robust metrics. At present, GDP accounts for economic production and not people`s wellbeing. Although it is important in monitoring economic activity, the disparity between it and the measure of wellbeing should be reduced to also aggregate people's wellbeing. Income can predict a person`s happiness but not their average happiness; hence, " people are concerned about their relative income and not their absolute level. They want to keep up with the Joneses or possibly outdo them." Richard Layard eplained (Betsey Stevenson and Justin Wolfers, 2008). As elaborated in Stiglitz`s definition of wellbeing, other factors have to be considered and included for a general individual`s well-being. Stevenson and Wolfer also found out that, after a certain accumulation of wealth there emerged a plateau and no longer was wealth a factor of happiness and as a consequence wealth accumulation did not account for wellbeing. This plateau was present in both developing and rich economies and as a result brings to question the single metric used for capturing total well-being of individuals in a country.

To have a closer look at GDP`s inefficiency in measuring of well-being, I would like to introduce the household perspective. Due to the ever changing social and cultural values, some of the services offered at present were not purchased a few years ago, but are now sold in the market. This results in an increase in the national income and a false impression of the standard of living, an example of this is the introduction of “ day cares” which now offer services that were previously offered free of charge by relatives and stay home mothers. Another unseemly approach arises from calculation of disposable income. A percentage of the total income is taken by the government towards taxes which go towards providing public services like roads. Unfortunately during calculations, this percentage of income is added then subtracted, but the services offered by the government which benefit the individual are neglected, only capturing the transfer of money from the taxpayer and the government (Stiglitz, Sen and Fitoussi, 2010, P. 40). As a result of this, the quantity of service rather than the quality is measured, even though there may be insignificant change in the service provided. Consequences of this are detrimental since, well-being would be diminishing due low quality of service, becoming worse with increase in price. While also considering marginal cost and benefit, the optimum scale in humans, takes place once marginal cost equals marginal benefit (Daly, 2014).

In every society there are activities that happen in the “ shadows” (Zumbrun, 2014), they are considered illegal and taboo. For the sake of space, just but a few of this activities include: prostitution, illicit drugs, tax evasion, and money laundering. Although considered immoral, this undertakings usually contribute to the economy but not considered in the total tallying of GDP; hence, further inadequacy in measuring that which matters to some people while also giving inaccurate measure of the total economic potential of a country. Deficiency in this data has caused manipulation of statistical data by politicians during election (Wallerstein, 1984). In some countries like the UK, estimates which are not accurate will be used to track spending from this illegal sectors. For instance, to estimate income from prostitution, a tally of both on-street prostitutes along with those taken in by nongovernmental organisations will be measured alongside male inhabitants (Zumbrun, 2014). This miscalculation by estimation has also affected the calculation of income by non-profit organisation which are usually in constant supply of income from the public who increase their well-being by donating.

Approaches and Indexes to consider in measuring of well-being

In conclusion, findings from this " measures of well-being" are of enamours significance to the citizens of a country. From them, resources are allocated and policies that affect individuals in a country are enacted, this include allocation of resources from medical care to global warming and environmental degradation. Although there are alternative indexes to GDP, more consideration should be pondered in adapting and formulating new measures that are in par with the ever changing global world, new cultures are emerging and from them, individuals with unique factors of well-being emerge. In summing up, welfare economics can make positive contributions to development economics through the application of cost benefit analysis, GDP adjusted to cost benefit analysis is a more significant measure of welfare than unadjusted GDP (Islam and Clarke, 2014).