Gdp and welfare essay example

Experience, Happiness

INTRODUCTION

The aim of this report is to identify that whether or not the GDP has an effect on the level of happiness of the individuals. The economy which has a higher GDP does not show that the people of that economy are happier. Happiness of an economy can be determined by the social factors. This report will discuss the National Income and GDP and whether it determines the social welfare of an economy and practically apply it on UK's economy.

This report will discuss GDP and its limitation in estimating the welfare and happiness of the people. Despite the limitations GDP is used by the economists to speculate growth and welfare. The limitations of GDP in predicting the welfare and other methods which efficiently determine the welfare of the society will be discussed. Further this report will explain and interpret the importance of deriving new methods for measuring the welfare of the people in the society.

NATIONAL INCOME

National income of an economy is the total output of all the new goods and services that are produced in a period of one year. The national income amount is only derived from the new products that are produced or the services that are produced over a period of one year.

The calculation of National Income can be done by three methods (Kress, 2012):

- The income method
- The output method
- The expenditure method.

All the three methods can be used to calculate the National Income of an Economy.

GROSS DOMESTIC PRODUCT (GDP)

GDP is the aggregate of National Income. It is used widely for the economic and accounting purposes. For UK, GDP is the gross value added of all the industries over one year. This calculation is done by using the output technique.

GDP of an economy is a tool used widely to measure the stability of a country. The GDP of an economy can be calculated by the economists in two ways. One is the income approach and the other is the expenditure approach (Bauer, 2012).

The economic growth and increasing production is one of the factors which determine the welfare of the society. When the economy is flourishing the inflation level falls, the employment level increases and the wage level also rise. This results in the well being of the population.

NATIONAL INCOME & GDPBoth national income and GDP combined are very essential for the welfare of the society. Both show that a rise in the income of the individual takes them towards welfare. With the rising income the expenses also increase which provide opportunities for others to earn. This is a mutual step which helps the economy in flourishing. Growing National Income and GDP result in satisfaction for the people but they cannot be used to determine the level welfare in the society. Besides GDP there are other factors which make a direct impact on the welfare of the society. It cannot be claimed that if an economy has a high GDP its people would be happy too (Aulich, 2012).

GDP AND ITS LIMITATIONS TOWARDS WELFARE AND HAPPINESS

GDP is an economic tool. It fails to identify the human emotions which derive their level of happiness. It is important for the economists to understand that GDP as a tool only helps in measuring the accounting figures of the growth of an economy. The economic growth cannot determine the welfare of the people or the happiness which they derive (Bhola, 2008).

- GDP fails to calculate the household chores which the individuals perform. The social and volunteer work which the individuals perform is unpaid and hence is excluded from the economic activities.
- The unregistered money is not part of the system and hence it is not calculated.
- GDP fails to measure the quality of living and the pleasure which the individuals derive from those activities.
- GDP fails to realize the social mishaps and exploitation.
- The GDP of an economy which has a high stock bubble or the housing bubble can be showing a high GDP. When this bubble bursts the economy collapses. (Lehman Brothers)
- The income possessed by the rich and the poor is not identified. This reflects that higher GDP may not show the unequal distribution of wealth in the society.
- GDP fails to recognize the input placed to produce the output. The additional work may be done by the labor to reach to a high production scale. This may impact the labor socially and the satisfaction level derived may fall down due to less recreational time available. This is not measured by GDP.

Despite various limitations GDP is widely used by the economists to determine the welfare of the society. Above are the lists of activities which are directly related to the satisfaction of the individuals but the GDP method fails to identify those factors (Aulich, 2012).

This concludes that GDP is only limited to calculating the economic growth of the economy. It fails to recognize the welfare or the happiness which the individuals derive. It is not necessary that the happiness of a society increases or decreases with the increase or decrease in the GDP (Aulich, 2012).

UK'S ECONOMY AND GDP

The GDP of UK had seen a downward trend in 2009. In the era the economy was undergoing recession and there were political issues of UK leaving the EU. The GDP in the year 2010 was higher. The trend of GDP is constantly fluctuating. In 2012 the 3rd quarter was profitable.

(Straus, 2013)

(Trading Economics, n. d.)

According to an article published in trading economics it was stated that the GDP of UK was estimated to grow by 0. 3%. The factors which contributed to the increase in the GDP were the change in inventory which increased the final figure by £2. 5 Billion, the expenditures of households increased by 0. 1%, in the service sector the GDP rose by 0. 6%. The exports and the imports dropped by 0. 8% and 0. 5% respectively (Trading Economics, n. d.). These figures were extracted from the ONS.

The economy of UK and the welfare of its society cannot be represented by GDP. The GDP growth of the economy is subsequently low. The trend of the

GDP in the previous years is showing fluctuations. The economy does not rely on growth and work. A big chunk of UK's population is on pension funds. The welfare scheme which the government provides to the households is more than 30% of their salaries.

According to an article published in Guardian, UK offers a concept of welfare funds to the people. It plays a substantial role in the lives of the households. About 64% of all the families which amount to 20. 3 million people receive some kind of benefits, from 20. 3 million 8. 7 million of them are pensioners. The number of the people who don't work is increasing (Guardian, 2013). The contribution of the funds are retrieved from the annual GDP and budget prescribed. The welfare of the individuals is significantly higher than the GDP rate of UK which is constantly fluctuating. This shows that the level of the welfare of the people cannot be seen by the GDP. The factors which are vital for the welfare are happiness and satisfaction (Sandbrook, 2012).

OTHER MEASURES OF ECONOMIC WELFARE

In the past the governments used to rely a lot on GDP to measure the economic welfare of the society. The changing environment and drastically increasing economic growth initiated the quest for searching better tools to measure economic and social welfare.

Economists like Nordhaus and Tobin proposed methods for Measuring Economic Welfare which could replace the previous methods of deriving welfare of an economy through its GDP. The proposed method covered all the aspects like the leisure time, the value of unpaid work, value of environmental damage etc. which are omitted by the economic factors. (Nordhaus and Tobin, 1972)

The Index of Sustainable Economic Welfare is an extension of the Measures of Economic Welfare Tool. It includes more harmful elements which impact on the society with the economic growth.

(Nordhaus and Tobin, 1972)

The tools which have been discussed above are used by the economists widely to calculate the economic welfare of the population apart from that of GDP. The method of predicting the well being of the individual cannot be predicted accurately by only using the GDP methods. This is because calculation of GDP only includes the economic factors but the well being of the individuals is linked to the economic and social factors both. The models which have been discussed above were formed to calculate exactly the factors which determine the welfare of the population.

The social factors of a society determine the well being of the people. These factors can be calculated after assessing the social indicators. The social indicators include self sufficiency which shows that the individual is satisfied, equity is the distribution of the household income which increases competition and the thirst to work harder for success, health status of the inhabitants of the society, social cohesion and injustice are de-motivating for the individuals and they result in social injustice.

Other tools used by the economist apart from the tools discussed above for measuring the social welfare are namely the Genuine Progress Indicator (GPI), Sustainable National Income, Gross National Happiness (GNH), and Human Development Index (HDI) etc (Bhola, 2008).

EXPLANATION AND INTERPRETATION

The concepts which have been discussed above in this report show that GDP is used frequently to compare or interpret the welfare of the society. The problem is that GDP cannot analyze the factors which determine the happiness of the people. The growth of an economy does not ensure the happiness of the people and hence it cannot be concluded that higher GDP results in more welfare of the society. For this the economy of UK was carefully analyzed and it was concluded that the growth rate of the GDP is lower comparatively but the satisfaction of the people is higher. This is because they are happy and have all the necessities which they require. The economists have found out the techniques and methods which can measure the welfare of the society. This is done on the basis of factors like leisure time which the individuals have, the amount of unpaid work which they have to do, the environment in which they are living etc. These factors are considered to affect the welfare of the society. There are more specific models proposed by the economists to determine the welfare derived by the people which are Measuring Economic Welfare (MEW), Index of Sustainable Economic Welfare (ISEW), the Genuine Progress Indicator (GPI), Sustainable National Income, Gross National Happiness (GNH), and Human Development Index (HDI) etc.

CONCLUSION

The discussion in this report identifies the importance of GDP. It also highlights the limitations of the concept in measuring the welfare of the society. This concludes that high and low GDP growth rate cannot be used to determine the welfare of the society. The growing economy can bring welfare by reducing unemployment and decreasing inflation but still GDP fails to cover certain aspects which are the main factors in determining the welfare of the society.

GDP can help in partially interpreting the welfare of the society but it fails to do so completely. For this purpose measures have been structured which cover all the aspects which are detrimental in predicting the welfare, happiness and the satisfaction level of the people. This report proves all these discussion with the example of UK. The economy has a fluctuating growth trend in the previous years. The growth rate of GDP is very less comparatively but the welfare and happiness of the people is very high. The standard of living and the leisure facilities which are available shows that GDP rate does not determine the welfare of the society.

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