Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Kaushik Basu

GDP has become an end in itself

In mainstream economics, description is routinely treated as secondary to analysis. Labeling a work as "purely descriptive" conveys dismissiveness.

Yet, as Nobel laureate economist Amartya Sen observed in a seminal 1980 paper, every act of description involves choices. Whether we are describing a historical event, an individual, or a country, what we choose to include and what we leave out can be critical.

Description shapes perception, and perception, in turn, can profoundly influence behavior.

Describing the state of a country's economy is a complicated task. In the past, scholars wrote lengthy volumes debating whether one country was doing better than another.

But over time, a single measure has come to dominate the conversation: gross domestic product (GDP), which represents the value of all goods and services produced within a country in a given year.

With some adjustments, it also approximates the population's total income. It is an astonishingly concise metric, often used as shorthand for economic well-being.

As Diane Coyle noted in her 2014 book on the history of GDP, its emergence marked a watershed moment in economic policymaking. Developed by Simon Kuznets in the early 1930s, GDP has brought much-needed rigor to policy debates.

Politicians could no longer simply point to tall buildings as evidence of progress (though many still do). Today, assessing a country's economic performance over time means tracking the growth of its GDP.

GDP has become an end in itself

To be sure, there are other ways to assess national well-being, such as the United Nations Human Development Index and the World Bank's shared prosperity indicator.

But when it comes to determining whether one economy is outperforming another, GDP (or GDP per capita) remains the default benchmark.

While GDP has undoubtedly played a valuable role in modern economics, its limitations are increasingly difficult to ignore.

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Over time, it has become an end in itself, enabling politicians to use growth figures as a convenient distraction from persistent social and economic fractures.

Growing unease with GDP-centric policy thinking was powerfully articulated in UN Secretary-General António Guterres's 2021 report Our Common Agenda, which urged global policymakers to embrace a broader set of progress indicators.

The illusion of widespread prosperity

As an economic indicator, GDP has three key weaknesses. First, by focusing solely on a country's total income, it can create the illusion of widespread prosperity, even when inequality is rising. GDP per capita can rise even as a majority becomes worse off.

As Joseph E. Stiglitz put it in his 2010 book Freefall, "A larger pie does not mean everyone – or even most people – gets a larger slice."

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But most people may celebrate GDP growth nonetheless – much like they cheer their country's Olympic medal count – without questioning who actually benefits.

This concern was highlighted by the Commission on the Measurement of Economic Performance and Social Progress, which was established in 2008 by then-French President Nicolas Sarkozy and included Stiglitz, Sen, and other prominent economists.

Its final report called for incorporating measures like income distribution and inequality into GDP.

Sustainability is central to how we define prosperity

The second weakness of GDP is that its maximization often rewards activities that undermine democratic governance.

Being super-rich, after all, involves more than just owning more cars, mansions, planes, and yachts. Extreme wealth – especially in the age of social media and AI – also means having a louder voice and disproportionate influence over how people think.

To ensure a sustainable future, we must reform our most prominent measure of economic welfare so that sustainability is central to how we define prosperity - Kaushik Basu

In traditional societies, when a feudal lord entered a village council meeting, ordinary people who may have been arguing and pleading for change just moments earlier would fall silent.

That same dynamic is now playing out on a global scale. As wealth becomes concentrated in fewer hands, and as a handful of online platforms shape what billions of internet users see and hear, many are discovering that they are losing their voice – the most essential instrument of democracy.

Clearly, the time has come to develop new measures of national progress that do not strengthen the forces threatening democracy. As US Supreme Court Justice Louis Brandeis famously warned, "We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both."

Lastly, GDP can be inflated at the expense of future generations. We can and do boost GDP growth by engaging in activities that damage the environment and accelerate climate change, leaving our descendants with a scorched earth.

Given this, merely acknowledging the urgency of climate action is no longer enough. To ensure a sustainable future, we must reform our most prominent measure of economic welfare so that sustainability is central to how we define prosperity.

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