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Is GDP an Antiquated Measure of Progress?

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Abstract.

The Gross Domestic Product (GDP) has long served as the standard measure of a nation's economic power and progress. However, its narrow focus on economic transactions and failure to account for social and environmental well-being have raised concerns about its validity as an indicator of overall development. This paper critically examines the correlation between GDP and genuine progress, along with the well-being of societies. GDP's limitations become evident when considering its disregard for negative externalities, exclusion of non-market activities, and failure to address resource depletion and environmental degradation. Moreover, the pursuit of GDP growth often comes at the expense of social and ecological resources, leading to a stagnation of overall well-being. The Genuine Progress Indicator (GPI) emerges as a promising alternative, offering a more comprehensive reflection of economic, social, and technological advancements. By analyzing data from six countries grouped by GDP per capita, this study explores the relationship between GDP and happiness. It reveals that while higher GDP per capita generally correlates with higher levels of happiness, diminishing returns occur as nations become wealthier, emphasizing the need for a nuanced measurement system. Recognizing the limitations of GDP, this paper argues for a more balanced and comprehensive approach to measuring economic progress. Incorporating indices like the GPI alongside GDP can provide a more accurate understanding of societal advancement and well-being. A paradigm shift is required to redefine economic progress, moving away from a narrow focus on production and embracing a broader set of factors that prioritize social welfare and environmental sustainability.

Keywords: Gross Domestic Product (GDP), Genuine Progress Indicator (GPI), environmental sustainability