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The GDP: A Narrow Statistic in a Big Data World

A nation's GDP is the monetary measure of a nation's material production. Its usefulness as a measure of economic strength was clear when it arose in the booming WWII era of the mass production of material goods. However, while it was not designed to be *the* measure of the strength of a nation's economy, it has established itself as a catch-all metric when discussing large-scale economic strength and changes. There are two major flaws with the GDP in describing economic strength: it is a single number that lacks insight on many important economic indicators such as employment or financial certainty; and despite historical claims, it cannot be reliably measured in some modern industries. Together, these flaws suggest that when discussing economic strength, it may be more useful to consider a more holistic approach consisting of more specific statistics.

The largest flaw of the GDP is that it doesn't offer a holistic view of a nation's economy. Older schools of thought robotically proposed that growth in GDP would correspond with a stronger economy by the idea of "potential Pareto optimality" (Stanton, 2007): the idea that an increase in wealth would increase the capacity of the economy, which would eventually reach all members of the economy. However, this is often false; in his podcast with WNYC, Stiglitz emphasizes that there are seemingly opposite trends in GDP and the overall economy following the Great Recession. How can this be the case? Stiglitz describes the growth in GDP as "selective": 91% of the GDP's growth between 2009 and 2012 went to the wealthiest 1% (Lehrer, 2019), a fact that doesn't indicate *overall* economic growth. In other words, "the top 1% was feeling a recovery," but the vast majority of the population gained no economic power. Stiglitz also cited that the employment rate is historically low, and the majority population feels a great deal of anxiety (Lehrer, 2019), which are additional indicators that the economy is not faring well, despite the growth in GDP. In short, the GDP attempts to measure a complex and multifaceted entity into a single number, but this number may hide phenomena such as unemployment and individual economic stability. In response to these concerns, Stiglitz and Sen propose a newer approach involving measuring multiple human “capabilities” rather than production. This analysis combines multiple factors indicative of a population’s overall economic health, such as freedoms and health (Coyle, 2017). While it is less objective and more difficult to measure than the GDP, it is more useful in that it attempts to measure how effectively the money can be used (how capable citizens are of using that money), rather than providing the sum total money produced (which, if not distributed wisely, may not indicate much about an economy).

Historically, a major justification for the use of GDP as an economic indicator was that it is an objective, practical measure of a nation’s economy (as opposed to more subjective measures such as the “capabilities” approach), but this cannot be justified in the modern economy. Firstly, a clear distinction between “final market” and “intermediate” products is important to the definition of the GDP — the GDP doesn’t include intermediate products, only final market items — but this distinction is ambiguous with modern goods. For example, the BEA doesn’t consider advertising a final product, so “a pay-per-view business model to an ad-supported model reduces GDP” (Varian, 2016) — this arguably disregards from the GDP billions of dollars worth of productivity in the advertising industry. Secondly, our perception of and value of goods rapidly changes as digital technology advances at an exponential rate. Personal and business computing power are becoming both cheaper and more powerful by the day, skewing our idea of the monetary value of goods, i.e., the relation between productivity and price. The GDP was first proposed and widely used in the WWII era, where an important measure of the value of an economy was its production of wartime supplies, which could be easily measured and where the value of goods was not too volatile; however, we cannot apply that to the highly turbulent modern consumer industry.

We’re far past a war economy focused on material goods; the rapidly-changing demographic and technology younger than the GDP makes it impossible to holistically summarize a national economy in a single statistic. To effectively describe the overall health of a modern national economy, more advanced and multifaceted measures have to be developed.

Notes on revisions (3/27/20):

Like in the midterm final draft, I tried my best to address your comments by making the overall format of this essay more clear, with clearer topic sentences and thesis statement, clearer and shorter sentences, and more logical paragraph content.

Works Cited

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