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The Problem with GDP

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Abstract
GDP (Gross Domestic Product) is the total number of things which is produced in a country or state either by domestic companies or foreign companies. When the data for the financial year 2020-21 about the GDP of country was released and according to it, the annual GDP Growth Rate of the country had touched -7.3 per cent. The nation has never seen such a poor yearly GDP Growth Rate since gaining its freedom. It was the worst GDP Growth Rate in the history of our country. Why did it happen? What were the government's shortcomings and reasons behind it? The issue of measuring things using GDP. -7.3 per cent, this number, what does it tell us about the situation of the country? And what does it hide? Here it is explored as what is the reality of GDP, and how it reflects that everyone must know about it.

Keywords: Gross Domestic Product, Growth Rate

Introduction
Let's look into the details of this new data first. Ever since the independence of our country, till today, the annual GDP growth rate has been negative five times only. Only two of them were during major times. First in 1965-66, when the country's GDP fell to -2.6 per cent. The reason for it was that we were at war with Pakistan. And because of the war, the economic situation of the country was terrible. And second in 1979-80, when the GDP had fallen to -5.2 per cent. There were two main reasons for this. First, there was a drought in the country because of the Agricultural Production. Second, there was a revolution in Iran and the petroleum supply to the country was quite disrupted. An event worse than these two events was during the Covid-19 pandemic, when the country's GDP Growth Rate reached -7.3 per cent. There are 167 countries around the world including India where the GDP Growth Rate has become negative because of the pandemic. But there are also 28 countries whose GDP Growth Rate remained positive, despite the raging pandemic. These include China, Taiwan, Bangladesh and Vietnam. The government would like to shift the blame wholly on the pandemic. But we know that even before the pandemic, the GDP Growth Rate of the country has been constantly falling from 2016-2017. But the good news is that the GDP Growth Rate of the last quarter (FY-2020) was positive i.e., +1.6 per cent. The RBI expected that the GDP Growth Rate of the Financial Year 2021 would be -7.5 per cent, but it was only -7.3 per cent. So that was good news too. The GDP Growth Rate could be anywhere between +7 percent to +9 per cent next year. *According to the IMF 2022 report, the nominal GDP in the whole world, the GDP of the USA is 25.3 trillion dollars with first rank while China is in second*

rank with 19.9 trillion dollars of GDP. India's GDP is 3.5 trillion dollars which always changes. In the Financial Year 2022-23, the growth rate of India's GDP is 7.2 per cent.

Does GDP Reflect Reality?

But the biggest question is what does this number mean? Can this GDP figure reflect the burdens of a citizen or the conditions and situations that a common man is going through in the country? A household survey was done by the CMIE 2022, 2 lakh people were surveyed, which showed that the income of 97 per cent of the Indian population was less than the income of the years 2021. First let's understand some basics. GDP or the Gross Domestic Product, is made up of four main components. Consumption (how much are the citizens consuming in terms of goods and services?), Business Investment (how much are the businesses investing in the country?), Government Spending (how much is the Government going to spend?), and Net Exports (how much is the country exporting and importing?). GDP made up by the four main components. In the year 2020 and 2021, the Private Consumption component was affected the most by the pandemic. People lost their jobs. They became unemployed. Or their salaries reduced. Because of all of these, people did not have the money to spend. To buy goods or various services. Because of the lockdown too, people did not have many options to consume goods and so, private consumption fell a lot. But things like Government Spending depend on the government. GDP will drive up if the government spends more.

From here, we will start to see where things went wrong. The things that a citizen is suffering through the conditions that a common man is facing, how is it not reflected in the GDP figure, this is a small example of it. If the government spends a lot of money and the private consumption falls by a lot the GDP will not fall down as much because of the increase in Government Spending. And the Government Spending did increase in year 2021.

The area in which the government spends matters a lot. The government should increase its spending. But not on just any project. Not on projects like the Central Vista, which is a one-time infrastructure project where a lot of money will be spent this year, but in the end, there would not be a healthy output from it. The government should spend in such areas which will put more money into the people. Direct Benefit Transfer should be adopted by the government. The Government should give more money to the people through different means. Send money to the poor or unemployed people. If people get more money, they will be willing to spend more for sure. This will lead to an increase in the Private Consumption component as well.

Here is another interesting problem with the GDP Indicator. Suppose the government spends money on building a road. And there is some corruption. The government spends excessively on building the road. But the quality of the road is terrible. And the road disintegrates after a month. So, the government spends a lot of money in the next month to build the road again. But the road breaks down again after a month. More money is spent on the road. And this cycle continues. But for the GDP, this is actually a good thing. As compared to a scenario where the government builds a good road that will last 10 years, in the second case, the GDP Growth Rate will be lower. Because the government spend on it only once. Similarly, there are numerous useless activities in the country and the world at large that do increase the GDP but in reality, neither the people benefit by it nor does the country benefit.

How GDP Ignores Efficiency

A problem related to it is that maximizing GDP does not mean that the happiness of the citizens is maximized. Neither does it mean that the efficiency or convenience is maximized. I will explain this with an example. Suppose an individual buy a cheap airline ticket by researching online then goes to the website of the airline and buy it. It's very efficient. It makes him happy because he has bought the ticket at a low price. Now, look at its alternative. Had he bought this ticket through a travel agent, the travel agent would've gotten his salary, and suppose the travel agent did his research on a paid travel website, the travel website would've earned a little too, both these things increase GDP. The more intermediaries involved and the more they are paid, the GDP of the country will increase. But is this actually the most convenient or gives the most happiness? Absolutely not!

Look at a website like Wikipedia. All the information on it is freely available. GDP is not affected by it. The GDP will remain unaltered if you get any information from Wikipedia. But if you pull up any information from a website where you need to pay, it will help the GDP. The GDP of the country will rise so much more. Does that mean we should do it? Absolutely not.

GDP vs Inequality

The next problem is that the GDP is only an aggregate. In a way it is a total average for the entire country. It does not tell you about the distribution of wealth in our country. If only the top 10 per cent of the people are very rich in the country, they earn the most and control the economy of the country, their spending can lead to rapidly rising GDP even if the 90 per cent of the people are extremely poor and have no money to spend. This inequality can affect the average a lot. And it can be seen in our country as well. As it has been told before. That's why if we take out the rich people from the equation, and check the GDP for the common people, for the 90 per cent of the people, then that GDP might be way worse than it is now.

Bigger is Better

The next problem is that from the perspective of the GDP, the bigger a thing is, the more money spent on something, the better. But in reality, is it not always so. We have seen several examples of it. The more the financial sector kept on growing and becoming out of control eventually led to a financial crisis. And from the perspective of the environment, it is even worse. As there is limited natural resources. But to maximize the GDP we need to keep increasing the consumption more and more consumption by the people is good for the GDP. If there are some Nature Parks and Islands where the biodiversity is beautifully preserved. Where we can mesmerize nature and wildlife, the GDP of the place will be zero. Because we may not get any economic benefit from that place since it is left untouched by humans. Like the North Sentinel Island in the Andamans for example or some of the islands in Lakshadweep which are uninhabited. The GDP output of those places is zero. But if someone goes there and chops down all the forest, kills all the wildlife and makes buildings and luxury resorts on these islands, it will be very good for the GDP. The GDP Growth Rate will rise rapidly in that specific area. But will it be good for the country? We would say no, but the GDP will say yes. GDP will say that let's cut all the forests, it will increase the pollution, there will be more companies because of it, that will make anti-pollution masks for you or oxygen cylinders to keep us protected from pollution. That company will earn more, we will spend more, and the GDP will grow even further. Means, first, create pollution by deforestation and then sell some other things to deal with the pollution so that the GDP can grow even more. Can we see the problems with GDP Growth Rate? The problems that exist in GDP as an indicator?

Some Alternate Approaches

Purpose for writing this article is not to ask to ignore the GDP data from now. Assuming the GDP data to be absolutely useless and not worth paying attention to. It is not so. GDP is still a very important indicator regardless of the limitations and problems. Because the GDP gives an overall idea of the economy to judge the economy. It will continue to be an important indicator in the coming years as well. All it has been trying to say is there are some

limitations of using GDP as an indicator. Areas where it shouldn't be used. Things that we cannot conclude from it. And when we see this number, the things that are hidden behind this number. Like if we were to take an example of the fitness of a human body, Body Mass Index or the BMI is an important indicator to judge the health of a person. This calculates the ratio of the height and the weight of the person and tells us if our weight and height ratio is healthy or not. If our weight is more or less than the ideal weight for our height. The BMI tells us this and it is very important. But can this indicator tell us about all the details of the health of a person? How is the blood sugar level of the person? If any vitamin or mineral is deficient? What are the levels of the hormones? Is the body weight mostly fat or muscle? BMI does not tell us these things, and you need to check some more indicators to understand the total health of a person. But the BMI does help in approximating the condition. The GDP is similar to it.
The things that the GDP uncover them, we need to examine the other indicators:

- ✓ Like the **Global Hunger Index**, **The Peace Index** (how peaceful is the country).
- ✓ **Environmental Protection Index**, we need to check air pollution.
- ✓ To understand the inequalities in the country, we need to focus on the **Inequality Indexes**.
- ✓ To judge the development of a common man in the country, **Human Development Index (HDI)** should be seen.
- ✓ Apart from these, **the Genuine Progress Indicator** is a very good measurement that considers the sociological and ecological factors, that the GDP doesn't.