



Gross Domestic Product (GDP) as an Indicator of Development



Introduction

Gross Domestic Product (GDP) is one of the most widely used indicators to measure a country's economic performance and development. It represents the total monetary value of all goods and services produced within a country's borders over a specific period, usually a year. It is a crucial metric for economists, policymakers, and international organizations to assess the economic health of a nation.

How is GDP calculated?

Gross domestic product (GDP) measures the value of all goods and services produced within a country. Unlike gross national income (formerly known as gross national product), GDP includes the output produced by both domestic and foreign nationals within the country's borders. Therefore, GDP is a measure of the value added within a country.

Economic growth is typically expressed as a percentage, indicating the relative change from the previous year. For example, if economic growth is +2%, it means that the GDP has increased by 2% compared to the previous year. This type of growth is considered exponential.

What Does GDP Tell Us?

Corresponding to the unequal distribution of the world's gross domestic product (GDP) among the various countries, there are also very large differences in terms of gross domestic product per capita. While GDP per capita in the economically developed countries will be around \$45,000 in 2022, GDP per capita in the economically developing countries will be only around \$4,500.

The difference between countries is even greater: Luxembourg (the country with the highest GDP per capita) had a GDP per capita of USD 133,590 in 2022, more than a thousand times higher than Burundi (the country with the lowest GDP per capita in the world).

Africa is the continent with the lowest GDP per capita, at just \$1,700 per year in the same year. About 600 million people lived in the 25 countries with the lowest GDP per capita in 2022; the GDP of these countries totalled US\$270 billion. In contrast, the GDP of the 25 countries with the highest GDP per capita was \$48,000 billion. Since the 25 countries with the highest GDP per capita had about 1 billion people in 2022, their GDP per capita was over one hundred and twenty times higher than that of the 25 countries with the lowest GDP per capita.

A positive look at GDP

From the perspective of its proponents, Gross Domestic Product (GDP) has several advantages that make it an important indicator, despite its well-known weaknesses. Many of the new indices, such as the Genuine Progress Index or the Happy Planet Index, have significant problems with data availability, timeliness and quality. Aspects such as subjective well-being and environmental sustainability are also difficult to calculate. Even if an index and a country ranking are produced in the end, this does not necessarily mean that they reflect



reality better than GDP. The choice of indicators is often very subjective and can be politically influenced.

Despite all the criticism, economic growth remains a key objective of our society, and GDP is and will remain the key indicator. It serves as an important basis for policy decisions, and it is questionable whether other indicators are better suited for taking concrete policy measures. Many of the known problems with GDP can be solved by improving the way it is calculated. For example, it is now common practice to also report GDP per capita in terms of purchasing power parity, so that one knows how much, say, 100 US dollars is actually worth in another country. Reporting average GDP per capita in terms of the median rather than the arithmetic average can also help to give a better idea of the distribution of wealth in a society.

It is also important to emphasize that GDP was never intended by its creators to be an indicator of "economic well-being". It should therefore not be accused of doing so. In a world where economic growth plays a central role, GDP remains an indispensable tool, even if it should be complemented by additional indicators to provide a more complete picture of a country's economic and social situation.

A Critical look at GDP

Gross domestic product (GDP) is a widely used indicator for measuring a country's economic performance. However, there are some important aspects that should be taken into account when interpreting GDP.

Strictly speaking, GDP does not provide a direct measure of a country's wealth and quality of life. It measures only economic activity, not how that activity is distributed among the population. In other words, it says nothing about the distribution of wealth within society. An increase in GDP does not automatically mean that most people's incomes are rising. It may well be that only a small group of people benefit from that increase.

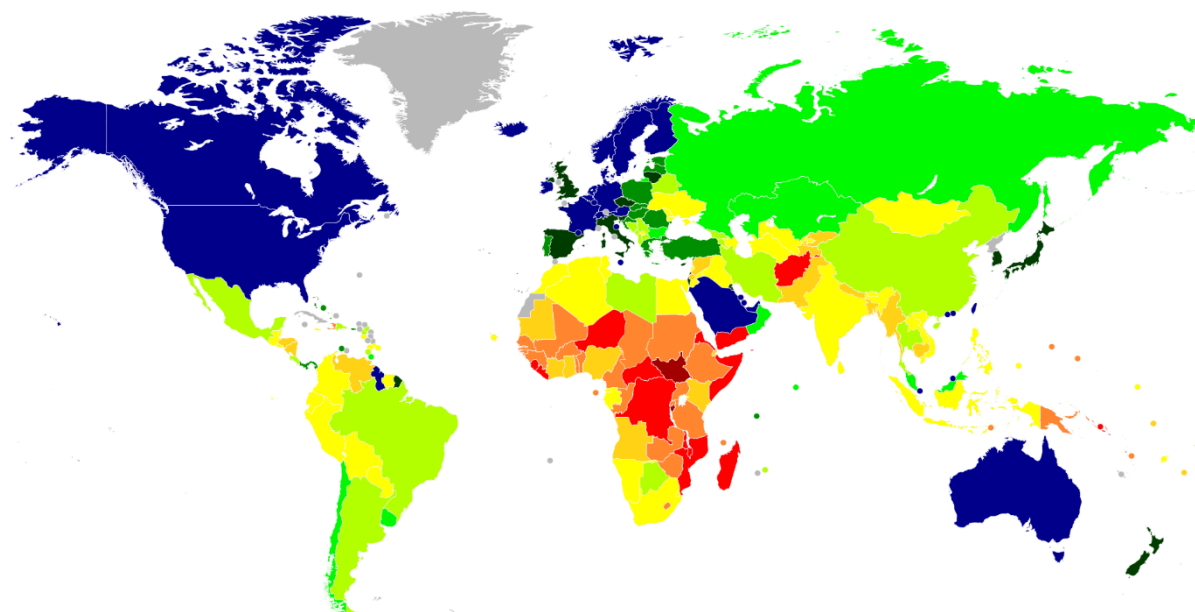
GDP is often used to compare the incomes of people in different countries. This involves converting income into a standard currency, such as the US dollar or the euro. However, this does not consider differences in purchasing power due to exchange rates. In countries like Ghana or Vietnam, one US dollar buys more goods than it would in the US. These differences in purchasing power make it difficult to use GDP as the sole measure for international comparisons of living standards.

Furthermore, GDP does not take into account the exploitation of scarce natural resources such as oil and fresh water or the degradation of the environment and biodiversity. Paradoxically, even an oil spill can cause GDP to rise, as the costs of cleaning up the spill are included in the calculation. "There can be no infinite growth on a finite planet". This statement underscores the need to reconcile economic growth and sustainability.

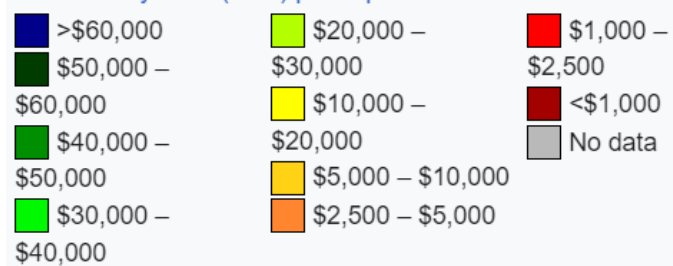
These aspects show it is a limited indicator that ignores many important factors. Therefore, it should always be considered in context and complemented by other indicators to get a more complete picture of a country's economic and social situation.



Map of countries by GDP (PPP) per capita in 2024



Countries by GDP (PPP) per capita in 2024



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Fact Sheet

Gross Domestic Product

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