



## Research Article

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# GDP as Development Indicator and the Challenges of Actualising SDG 8: Inclusive and Sustainable Economic Growth

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### Abstract

*The paper is a conceptual review of the GDP as a measure of economic, national well-being and development sustainability and proposal for adoption of Social Progress Index as a better measures of sustainable economic growth. The study adopted secondary data analysis design and thematic approach to address the pertinent issues raised in the discourse. The overwhelmingly imperativeness to evolve new models, indicators and measures with broader views and coverage around long-term, sustainable socioeconomic and environmental development issues after about 87 years of inaccurately applying the GDP to measure what it cannot measure; The work demonstrated that there should be a preferred substitute of the Social Progress Index (SPI) to the GDP because of its inability to measure national well-being and development. It strengthens the call for Policy Makers, Public Financial and Economic Institutions Managers, and Development Partners to de-emphasise the use of GDP as the determinant for all socio-economic and development policy decisions as it was not designed to do that. The study recommends that a new formula, SPI be adopted for measuring economic growth and national well-being, one which makes for the shortcomings and limitations of the GDP be adopted:  $EP\&NW = GDP (C + I + G + XN) + SPI (B + F + O)$ .*

**Keywords:** Economy, Gross Domestic Product, Limitation, Sustainable Development, Wellbeing

## 1. Introduction

The great depression of the 1930s and the World Wars of the 1940s put the world under huge social and economic pressures. The pressures, especially the Great Depression led the United States of America to seek solution which came in the form of the development of a metric that is based on estimates which show the capacity of the US economy to simultaneously provide and maintain the production of goods and rendering of services during the World War II (WWII) (Marcuss & Kane 2007). To this end, on the 4<sup>th</sup> of January 1934, Simon Kuznets delivered a report called National Income (1929 – 32) to the United States' Congress.

On the back of the success of the recommendation, countries' public policy makers and development analysts now rely on the GDP as a measure of economic success though Kuznet in that submission delivered a warning that the GDP is not in any way an indication of the level of wellbeing of the nation (Green, 2014). Almost nine decades since Simon Kuznets delivered his report, there is arguably no other statistical and economic construct that has had a greater influence on the modern economy and the measurement of economic progress and national well-being than the GDP. Changes in GDP have become the most widely accepted measure of a country's economic progress and development (Costanza, Hart, Kubiszewski, Posner, & Talberth, 2018) which is erroneously appropriated at improved well-being. While it is correct to infer that GDP plays a central role in judging the position of an economy of a country over time or relative to that of other countries, Jeroen and Antal (2014) posit that it nonetheless does not reflect the extent to which such touted positioning uses up the other non-economic resources which are strong determinants of the overall health and sustainability of an economy.

Since its introduction in the aftermath of WW II and the Great Depression, the GDP became the ultimate measure of a country's overall welfare, a window into the soul of an economy, the statistic to end all statistics. Its use spread rapidly, making it the defining economic and other social policy indicator of all time (Dickinson, 2011 cited by Alexis, 2017). Despite the fact that it is only useful for measuring marketed economic activity only, the Bretton Woods Conference energised its use as an evaluator (Stiglitz, Sen, & Fitoussi, 2010; Costanza, et al, 2018). GDP thus became a strong instrument for the determination of global politics and policy making, economic relevance, and diplomacy because the most pre-eminent world-wide administrative establishments, from the G8 to the G20, are all based essentially on GDP credentials for sustainable development. From the foregoing this paper will specifically:

- i. Describe the inadequacy of the GDP as a measure of economic development and sustainability.
- ii. Explain the insufficiency of the GDP as a measure of national well-being and development sustainability.
- iii. Elucidate the extent to which the GDP measures the socio-economic progress

and the well-being of its citizen's vis-a-vis overall advancement in a sustainable economy.

## **2. The Methodology**

Secondary analysis design was used in this study. This is founded on our position as Merriam (2009), and Oguonu and Anugwom (2012) stated that researchers arrive at decisions regarding the study design, scope, the analytical procedure that are appropriate for the study, etc. hence, secondary analysis in this sense is the re-analysed the qualitative data already collected from the previous study, by different researchers to address the challenging issues raised. They were obtained from text books, journals, official gazette and publications, periodicals, and internet materials. The data were discussed in themes.

## **3. Revisiting and Reviewing the Length and Limitations of Gross Domestic Product (GDP)**

### *3.1 What is GDP?*

According to Fioramonti (2013) and Coyle (2014), it is difficult to ascribe the discovery, success and influence of the GDP to an individual because while economic vagaries occasioned the Great Depression and World War II may have accentuated the interest and focus on the metric. It was ultimately political forces and world economic actors that formed, enunciated and shaped GDP into a global political and economic genie. On the heels of the Great Depression, Colin Clark, a British economist and his American counterpart, Simon Kuznets, were commissioned to evolve an economic solution to justify public policies and budgets expected to 'permanently' bring-out and keep the US out of depression and be involved in the WW II in a manner that would not endanger the standard of living of the citizenry (Marcuss and Kane, 2007). Subsequently, the GDP estimates were proposed and accepted largely because they showed that just emerging from the great depression, the US economy was strong enough to maintain production of goods and services while providing sufficient supplies for WW II (Cobb, Halstead, Rowe, 1995; Scharpf, 2000; Alexander, 2012).

Simon Kuznets is credited with generating the first national income accounts though they did not reflect a method he desired to use because his original intention was to evolve a metric that would aid the understanding of aggregate welfare and not just output (England, 1998; Perlman & Marietta, 2005; Acemoglu & Robinson, 2012; Philipsen, 2015). He reasoned that several activities including financial, housing and government spending should not be included. Against the backdrop of his definition of national income this would show that the economy would shrink if private output available for private consumption was used for government action (Syrquin, 2016). For

this reason, Kuznets recommendation was rejected and rejigged to serve some political motives. Considering that 'national income' is defined income and output per time, Kuznets primary idea was subsumed in the wartime politics of the time which gave birth to the tool that continues to define, uphold and determine economic and political policies and decisions till this day (Coyle, 2015).

The reason for the GDP being described as 'gross' is essentially because it is calculated ahead of making allowance or provisions for depreciation in the capital stock (plant, equipment and other assets) of the economy. Despite the overwhelming acceptance and adoption of the GDP, Kuznets (1934) expressed his thoughts on the limitation of the GDP index on account of its simplicity and the likelihood of misuse and misapplication. Kuznets briefly said:

With quantitative measurement especially, the definiteness of the result suggests, often misleadingly, a precision and simplicity in the outlines of the object measured. Measurement of national income are subject to this type of illusion and resulting abuse, especially since they deal with matters that are the centre of conflict of opposing social groups where the effectiveness of an argument is often contingent upon oversimplification.

Thereafter, a combination of the influence of national income accounting, econometrics, and related school of thought, particularly Keynesian ideologies motivated and escalated the significance of the GDP as a measure of progress in and well-being of an economy. This newfound status amplified the use of the GDP and inspired pervasive use of the metric (Pilling, 2014; Clark, Kavanagh & Lenihan, 2019). Upon this development, the Bretton wood institutions, IMF, the International Bank for Reconstruction and Development (IBRD) and the UN have all come to base national development, socio-economic progress and well-being on GDP as key indicator. Thereafter, the GDP became the gold standard and development metric across nations of the world (Coyle, 2014).

Following the emergence of National Income Accounts (NIA) emerged in 1930s, the gap that exists between societal performance and national income has been identified (Fehder, Porter, & Stern, 2018). Over the years, numerous attempts have been made to assess the performance of the socio-economic performance of nations in their various pre- and post-colonial periods. These involve important fundamentals like the advanced level of administrative infrastructure and state efficiency for the success of economic-oriented reforms, the rule of law, the advanced level of economic development, and the existence of a formal market economy (Sarker, 2006; Zhou, 2017; Ye, 2020; Basheka and Uwizeyimana, 2021). The adoption of the model was canvassed by the World Bank, IMF and Organisation for Economic Corporation and Development, and among others. This was based on the call to reinvent market and the measurement of the economy (Osborne and Gaebler, 1992; Arthur, 1996; Olssen and Peters, 2005; Erturk and Solari, 2007; Clift and Woll, 2012; Meister, 2017; Reznikova, Panchenko and Bulatova, 2018; Jackson and Jabbie, 2019). This further instituted the GDP as an indicator of economic

action and development.

According to McCusker (2000), the assessment of these efforts is not easy due the fact that they are founded on an assumption of dissimilarity, connoted in terminologies that are different with diverse departing points. This is most importantly the main stronghold of GDP as a public policy, national development and economic analysis instrument, despite the attendants' shortcomings (Fehder, Porter, and Stern, 2018; Mukherjee, Modak and Sushma, 2020). Theoretically, Hamilton (1994) opined that to summarize the approaches according to whether they are intended to alter GDP or not, Callen (2008:49) viewed GDP in the approaches of production; expenditure and income.

The commonest approach to calculating the GDP is the expenditure method which is done using the formular below:

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$$
  
Consumption (C) represents personal expenditure of households on goods and services such as food, rents, and utilities. Investment (I) represents expenditure by businesses and individuals for capital investment. Government (G) spending is the sum of government expenditure on goods and public sectors jobs. Exports (X) captures the amount of good produced for export to other countries. Imports (M) subtracts the value of goods and services imported from other countries.

Abbreviated:  $\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$

As an ancient indicator of development measurement, the GDP dates back to the scholastic work of Kuznets, O'Sullivan (2014:25) maintained that the rating of economic growth rate posits the measurement of the comparable annual change rate of GDP which perceives the development of the economy as an encouragement to humanity in an absence of real concern of living standard. In summary, the GDP measures the total market value (output at current prices inclusive of indirect taxes, such as VAT) of all final goods and services produced domestically usually within a year. The metric is reported in two frameworks indicating the percentage that changes within the most recent reference and also the current quarter's relationship to the same period a year earlier.

### *3.2 What the GDP Measures*

The importance of GDP cannot be overemphasised in that it is the current tool for distinguishing the data, size, and performance of any nation's economy. Basically, Callen (2008:49) argued that "an increase in real GDP is interpreted as a sign that the economy is doing well. When real GDP is growing strongly, employment is likely to be increasing as companies hire more workers for their factories and people have more money in their pockets." The concern of the citizens is the provision of positive answer to their socio-economic challenges.

It is necessary to emphasise the fact that the measurement of national welfare is scarcely different from that of her income. On this note, Kuznets (1934) cited by Fehder,

Porter and Stern, (2018) emphasised that;

Notwithstanding this cautioning and challenge that faces the amendment to the GDP to accurately replicate the complete range of societal experience, the importance of GDP has assumed prominence in the standardization of economic statistic for economics research and policy.

Thus, there are few studies that posited what GDP measured. Accordingly, Graaf and Evans (1996), Brezina (2011), Reddy (2012), O’Neill (2014), and Ahmad and Schreyer (2016) assert that GDP defines and measures the monetary worth and the annual or quarterly cumulative value of all current finished goods and services for sale produced in a given geographical and territorial boundary. They include some nonmarket production like education, defense and other services provided by the government. Amongst the most important are the quarterly estimates of GDP and Gross National Product (GNP) (Ironmonger, 2001). This has helped national economies to establish a formal market economy and achieving tremendous economic growth.

According to Boyd (2007), the most visible and influential of the national economic indicators is GDP. As a result, the IMF and World Bank always circulates an array of GDP data on its site for the calculation and evaluation of its growth and reality. However, an alternative concept, GNP, accounts for all the productive activities of the populations of a country. For example, Callen (2008) maintained that “if a German-owned company has a factory in the United States, the output of this factory would be included in U.S. GDP, but in German GNP.”

### *3.3 What the GDP does not Measure*

Basically, there have been challenges and questions about what the GDP measures either from the metrics of social progress or well-being and indices of economic development. A correlation has been established across developing and developed nations between social progress and economic growth (Barrington-Leigh and Escande, 2018; Fehder, Porter and Stern, 2018; BCG Report, 2019). Subsequently, an essential impression is created between literary or metaphorical movement towards an anticipated goal and end. This further makes it difficult to mention progress in absence of no direction. This also considers improvement as the indices of goal attainment (O’Sullivan, 2014). Obviously, there is absence of significant relationship between the growth in GDP per capita and the well-being like happiness, leisure time, high living standard, etc. thus, GDP per capita is excluded from the SPI.

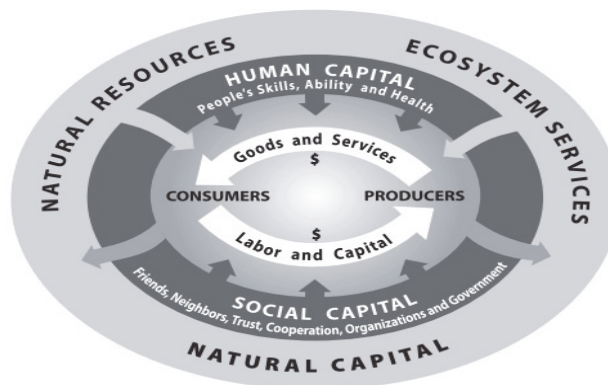
According to O’Sullivan (2014), few years ago have seen an explosion of development measurement indices which are formulated to serve as substitutes to GDP per capita as determinants of socio-economic development and “macroeconomic performance indicators” for countries and continental sub-regions trading blocs. The emergence of such indicators attested to the generally observed disappointment with the GDP as it does not correlate with the actual development. Moreover, the last thirty

years have witnessed a proliferation of efforts to incorporate a wider range of measurable factors that reflect societal performance, and “beyond GDP” indices (Fehder, Porter and Stern, 2018; Fleurbaey 2009). These attempts have major conceptualisation contest.

In another development, several attempts at the development of an overall determinant of socio-economic performance to substitute GDP acknowledge the cardinal position of a robust economy and welfarism which usually included a fundamental composition of societal performance (Fleurbaey 2009; Giannetti et al, 2015; Fehder, Porter and Stern, 2018). It is therefore necessary search for complementary fundamental factors that reinforce the policies that can enable one country experiencing otherwise identical conditions to another to escape from poverty to economic bountifulness (Giannetti et al, 2015). Accordingly, efforts to overtake GDP through amendment to include insignificant economic features end up with a measurement that integrates GDP.

### 3.4 Some Limitations of the GDP

The GDP is premised on an incomplete picture of the economy since it measures only monetary transactions related to the production of good and services. For this reason, it ostracises other equally or more important aspects, such as social and environment, of the economy as captured in the figure below: View of the economy.



**Figure 1:** Traditional View of Economic Activity

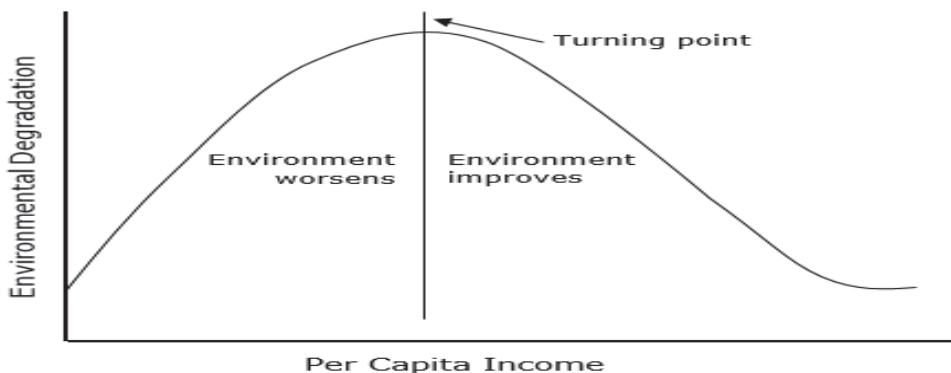
**Source:** The Pardee Papers (2009)

From the figure above, it is seen clearly that the GDP disregards a number of components on which the economy relies to achieve and sustain well-being and economic progress especially because the GDP encourages the depletion of resources without a corresponding provision for replenishment or renewal (Constanza, 1997).

Another constraint of the GDP is its limitation to measure progress beyond a particular degree. At a point, increases in GDP does not reflect an increase in overall quality of life as the increase in GDP is counteracted by factors such as work-life balance and income disparity. This is called the ‘threshold effect’ and suggests that beyond a certain threshold, increment in material well-being negative impacts cohesion in the community, relationship, sense of purpose and other social and environmental aspects of the economy. It is suggested that as GDP increases, rates of alcoholism, depression and poor health increases (McKibben, 2007).

The GDP measure only increase/decrease in output without regard for its consequences. For instance, if a country builds more prisons, increase the size of its police and instant state-of-the-art surveillance infrastructure to checkmate crime and insecurity, GDP will rise but it is likely that the well-being of the society may not increase because those who spend more to protect themselves and their property apply personal resources and suffer losses as it negatively impacts their purchasing power on other goods which may decline concomitantly (Stiglitz et al., 2009).

In the end, the GDP allows for activities that degrade the natural resources in a specified country across the short, medium and long terms, and in a manner that is often far and above the benefits accruable to the economy over time, as explicated by the Kuznets Curve (below) where the degradation of the environment worsens as GDP activities increase and only begins to improve as GDP activities declines after hitting the “turning point”.



**Figure 2:** Kuznet Curve

**Source:** Kuznets Curve, in Stern (2004)

According to Bernasek (2006), the GDP is notorious for suppressing the escalating inequality between groups in the economy leading to increase in crime, reduction in investment and decline in the productivity of workers. This is made worse by the concentration of economic growth in the wealthy income bracket without as much concern for the general welfare of the masses (Cobb, Halstead and Rowe, 2007).



### 3.5 The GDP: A Development Placement and the Misconception

After over eighty years of usage and popularity, there is an apparent and raging discontent with the Nobel-winning metric – Gross Domestic Product (GDP) as a good measure of economic growth and development. In fact, there are myriad of criticisms against the GDP, some of which are from respected economists including Nobel laureates. They include Kuznets (1941), Samuelson (1961), Mishan (1967), Hueting (1974), Hirsch (1976), Sen (1976), Scitovsky (1976), Hartwick (1990), Tinbergen and Hueting (1992), Weitzman and Löfgren (1997), Dasgupta and Mäler (2000), Dasgupta (2001), Layard, et al (2005), Daly (2008), and Fleurbaey (2009). About twenty-three years ago, governments of various countries acknowledged the failure of the GDP and amplified the need for new measures and concepts for wealth and prosperity. Prior to the Rio+20 conference in Brazil, the draft negotiation document had recognized the limitations of GDP as a measure of well-being (Kosonen, 2012).

Conceptually, GDP is the market value of all the finished goods and services produced either annually or quarterly. GDP “is composed of goods and services produced for sale in the market and include some nonmarket production, such as defence or education services provided by the government” (Callen, 2008). GDP essentially summarises the overall programmes that concern the economy of a nation. It was never proposed as a standard for the measurement or determination of economic wellbeing or development because it does not take into consideration the consequence of our current choices on future development which is at the core of the sustainability debate (Kosonen, 2012).

It is instructive and interesting to note that the first critic of GDP as a measure of economic progress was Simon Kuznets – the developer of the GDP metric, who cautioned against equating GDP growth with economic or social well-being. According to Kuznets (1934), cited by Colman and Atlantic (2004) and Malik (2014), the welfare of a nation can scarcely be inferred from a measurement of national income. Kuznets’ caveat notwithstanding, the GDP became an obsession for politicians and policy makers and a dominant mantra of policy making. Politicians, economists, and policy makers have been fascinated and enamoured by GDP numbers and have become the *sine qua non* for economic progress—something it does not measure and was never intended to measure. Debate on the limitations of GDP as a tool for measuring economic progress has never abated. The argument has always been whether GDP captures other important dimensions of development such as social and environmental as enunciated in the United Nations three pillars of post-2015 Sustainable Development Goals (SDGs).

Despite the stated purpose of the GDP which includes answering questions around the rate of economic growth, spending pattern, production-related inflation and percentage of income used up on consumption or investment (McCulla and Smith, 2007), the metric has continued to be misused as an indicator of economic progress and national well-being.

In 2008, Nicholas Sarkozy, the former President of France expressed dissatisfaction upon which he asked a team of economists including Joseph Stiglitz, Amartya Sen, Jean Paul Fitoussi to identify among other things, the limitations of the GDP as an indicator of economic progress and well-being. This concern is not peculiar to the French economy alone because for instance, Nigeria's economy which based on the GDP is the largest in Africa and 30th largest in the world, with a nominal 2019 GDP value of \$515 billion, cannot be said to have progressed in tandem. Nigeria's appellation of Africa's largest economy caught the attention of the world, eliciting myriad interests, analyses, and commentaries and, for many reasons, rightly so especially when the feat is juxtaposed with the level of economic progress and national well-being of the Nigerian citizenry. In fact, no economic development in recent times has provoked interest across the globe, and within the country like the assumptions around the GDP metric which have brought to the fore the overstatement of the GDP as a measure of economic wellbeing and progress.

The GDP which only measures monetary transactions in relation to the production of goods and services and which is incompetent of making accommodation for other particularly important aspects of the economy became the standard measure of economic progress, even though it was only intended as a macroeconomic accounting tool. In the intervening years between 1934 to date, economic growth has come to be equated with economic progress and the fallacy therefrom is seen from the outcome of such misrepresentation. The fundamental issue with the Gross Domestic Product is that it does not distinguish between the costs and the benefits of economic activities and it does not take into cognizance other critical aspects of the economy such as functional institutions and freedom of speech to mention a few. Essentially, it does not consider whether the costs of an economic activity outweigh the benefits. Accordingly, the GDP is only a good measure of size but falls noticeably short in its perspective on a bigger or better economy (Jauch and Watzka, 2016).

In the words of Robert F. Kennedy cited by Syrquin (2016), the GDP takes into consideration every other economic programmes but "does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile."

In the final analysis, income and wealth distribution, and the impact of economic activity on the ecosystem amongst people are not explained by the GDP. As a result, we are beset with a situation where an economy could rank high on the GDP index and rank incredibly low on human development indices presenting a situation that indicts the vision for economic progress and wellbeing that it has been erroneously compelled to achieve. For instance, Nigeria which by 2019 GDP (\$515 Billion) ranking is the largest

economy in Africa ranks 136<sup>th</sup> out of 163 countries by the 2020 Social Progress Index (SPI) scorecard, a Human Development Index (HDI) “value of 0.539 which puts it in the low human development category” as partly indicated by the National Bureau of Statistics (NBS) labour survey’s unemployment rate of 27 percent as at the second quarter of 2020. These and other woeful measures are suggestive that the GDP misrepresents the true picture of the economy of the country and the wellbeing of the citizens.

#### **4. Alternatives to the GDP**

According to the United Nations “bold and urgent policy measures needed to protect the most vulnerable and promote sustainability.” This followed the popular understanding of the challenges of and short-comings of the GDP as a measurement and determinant of the ‘real economic, human capital and community development’ in the developing countries have emerged. Therefore, scholars have proposed and developed alternatives and metrics for adoption (Talberth, Cobb and Slattery, 2007). Added to its posited limitations, is the concerns raised around its impact on progress only to a point, ‘threshold effect’ even as if it continues to rise because of balances by associated costs, losses, depletion and disregard for increasing disparity between extant classes of citizens (Max-Neef 1995; Bernasek, 2006; Talberth, Cobb and Slattery, 2007).

Policies, forecasts and decisions reached on account of the GDP metric are significant in the private and public sector(s) domains of any nation especially since the essential institutions, including the Central Bank, the Ministry of Finance and the entire economy depend on them to decide the policies in a particular nation (Stekler, 2008). Aside from the proclivity of the GDP for predictive inaccuracy (Danielson, 2008) and because it is based on an incomplete picture of the system, it is unable to measure real economic progress and well-being and consequently raised interests in alternatives. At the most basic level therefore, O’Sullivan (2014:26) averred that questions of alternatives seek to answer the question as to:

“Why should the sum of production of material goods be equated to the sum of happiness in a community? Is that not to make a crassly materialistic value judgment? Moreover, what about free goods that may be available, or leisure time? We could increase GDP in a community by simply working every waking hour while taking no time ever to enjoy ourselves but would we in that way really increase our happiness or well-being?”

It is obvious therefore, that rather than conflating the role of economic and noneconomic factors in a sole index, a proposal for an alternative index to exist alongside GDP in assessing societal performance. Nevertheless, Nardo et al (2005) affirmed that separating GDP from noneconomic social progress does not by itself overcome the inherent tasks of calculating a composite index such as selection of potential components and determination of their relative weights. In focusing

specifically on social progress, we aim to address these issues directly without explicit reference to the welfare contribution or relative role of GDP itself.

Following this development, attention is shifted on the development of a consistent and robust social progress index outputs to be examined total societal performance. Accordingly, in all countries for which both the Index of Sustainable Economic Welfare (ISEW) and the Genuine Progress Indicator (GPI) are available, their values are very similar and at some point, in time start diverging from GDP. This has situated some development scholars to postulate what they referred to as "threshold hypothesis" which states that the GDP and welfare pass the same direction to a particular level upon which the further growth of the GDP does not make provision for well-being improvement. Hence, "such indicators, sustainability is already far behind us, and we have already entered a phase of decline" (Stiglitz, Sen, and Fitoussi, 2010:28).

In the view of Inglehart and Baker (2000), entrance into the 20<sup>th</sup> century witnessed the modernization that was widely perceived as a unique western process that non-western societies could copy in so as they can abandon their methodologies, approaches and assimilate technologically and morally superior western ways. During the second half of the century, non-Western societies suddenly overtook their Western role models in key aspects of socio-economic modernisation and the long-term changes resulting from the economic miracles that occurred during the decades. For example, Inglehart and Baker (2000) explained that "East Asia attained the world's highest rate of economic development. Adopting official exchange rates, Japan had highest per capita income of any nation in automobile manufacturing and consumer automobile manufacturing and consumer electronics, and had the world's highest life expectancy." Presently, few economists and non-economists alike would attribute economic superiority to West, and by extension Western economies are no longer assumed to be the model for the world.

The suitability of GNP on earnings of organisations that are multinationally-inclined hangs on the fact the "the country where the company is owned, and where the profits end up inter alia, it pays the investing enterprise to earn its taxable income in one country (Dunning, 2012; O'Neill, 2014). Nevertheless, GDP profits are attributed to the country where the factory is located and resource extraction occurs, even if the profits leave the country. This change in national accounting has had important consequences, particularly lending support to globalisation."

Though Callen (2008:49) posited that GDP is important because it gives information about the size of the economy and how an economy is performing, the growth rate of real GDP is often used as an indicator of the general health of the economy. However, GDP is widely acknowledged to be a poor measure of social well-being (England, 1998). This is because, national governments have politicized the generation of GDP figures by spending millions of dollars in data collection, analysis and periodic publication of the said figure for global consumption. Summarily, the failure is emphatically pictured by Fehder, Porter and Stern (2018) who asked rhetorically, "what

are the right indicators, particularly if our goal as a society shifts from growth to degrowth?" Based on this argument, agree with Daly, an Ecological Economist who maintained in (2008) that, "the best thing we can do with GDP is to forget about it."

From the foregoing, several alternatives to the GDP evolved to address the inadequacies of the metric either by replacing it with other approaches or supplementing or complimenting it (Goossens, et al, 2007). Alternatives provided to the GDP include, but not limited to, the Index of Sustainable Economic Welfare (ISEW), the Sustainable Economic Development Assessment (SEDA), the Genuine Progress Indicator (GPI) and the Social Progress Index (SPI) as some of the better-known alternatives (Lawn, 2006; Menegaki, 2018).

As a corollary, it is no defensible to adhere to the usage of GDP as an economic development evaluating instrument and determinant of social welfare or well-being. This is basically due to the later realisation and warning of Kuznets, the original positor and father of the GDP tool that, "the welfare of a nation can scarcely be inferred from a measure of national income." In addition, the GDP is quantitatively-inclined and this makes it a tool of easy manipulation. These further challenges its status to determine the 'real development' that includes the availability of employment opportunities, critical infrastructures and social well-being of the citizens.

On final analysis, the GDP does not generally determine the total living standard of a nation's inhabitants though the dynamics in "the output of goods and services per person" tends to describe the poverty and prosperous status of citizenry, important factors that matter most in overall-being are relegated to the background. For instance, in accounting for such factors, the UN usually calculates HDI, that situate nations not fundamentally based on their high GDP per capita but indicators like school enrolment, literacy level, and life expectancy.

## **5. Proposing SPI as an Acceptable Measure of Development and Growth**

"Social progress is the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential" (SPI Imperative, 2013). The SPI emerged following a wide consultation with critical stakeholders across the globe as a result of the gap that exists between the GDP and social welfare indicators' performance when policy formulation and implementation are considered by policy administrators. GDP is often exalted and prioritised above social well-being. However, development has to "focusing on human well-being and 'social opportunity' rather than the standard indicators of economic growth" – the GDP (Dreze and Sen, 1999). Hence, the SPI makes case for an objective, transparent, and holistic outcome-based determinant of a nation's social welfare that is not is dependent on economic indices. According to Stern, Wares, Orzell and O'Sullivan (2014) it can serve as a tool for measurement and comparing the degree of any

country's progress in social welfare including its area of strength and weaknesses. SPI offers opportunity of benchmarking amongst peer countries at both the level of specific social progress made and individual indicators. Stern et al (2014) synthesised three dimension which include:

“Does a country provide for its people’s most essential needs?

Are the building blocks in place for individuals and communities to enhance and sustain wellbeing?

Is there opportunity for all individuals to reach their full potential?”

Therefore, an attempt to assess the SPI must start with the society’s ability to make provision of essential human needs for her citizens which includes but not limited to food, primary health care, environmental sanitation, security and safety, and shelter. This is represented in figure four below.



**Figure 3:** Structure of the Social Progress Index

**Source:** The SPI Imperative (2013)

In developing countries for instance, there is always a serious challenge of the availability of the aforementioned basic needs and Stern, et al (2014) argued that they are “often incomplete even in advanced countries.” The figure further aligns with the position of Dreze and Sen (1999) that “even the fostering of fast and participatory economic growth requires some basic social change, which is not addressed by liberalization and economic incentives.” Succinctly, Stern, et al (2014) noted that:

While basic needs have been the predominant focus of research in development economics, a second dimension of social progress captures whether a society offers building blocks for citizens to improve their lives. Are citizens able to gain a basic education, obtain information, access communications, benefit from a modern healthcare system, and accomplish these objectives in a way that is environmentally sustainable?

In the SPI Imperative (2015), SPI incorporates four key design principles:

1. Exclusively social and environmental indicators

2. Social welfare results-based and not inputs
3. Holistically relevant to all the global economies
4. Targeting public policy makers and implementers, the private sectors, and civil society organisations for actualization.

From the foregoing, proposing the adoption of SPI as a measurement of growth and development amongst both developed and developing nations will accelerate the actualization of SDG 8 – Inclusive and Sustainable Economic Growth.

## 6. Conclusion

The challenge to overwhelmingly find an alternative to the GDP in SPI cannot be waved. This is premised on the yearnings for social development with the creation of critical infrastructures amongst developing nations in particular. Though at conception, the GDP was a valuable roadmap to helping economies out of the woods, it has however has done its job and outlived its usefulness, in absolute terms. This is more so because of the GDP has “focused too much on the economy’s circulatory system and have neglected to study the digestive tract” (Daly, 2008). To this end, it has become overwhelmingly imperative to evolve new models, indicators and measures with broader views and coverage around long term and sustainable socioeconomic and environmental development issues in that after about 87 years of erroneously applying the GDP to measure what it cannot measure.

The main aims of this study included revealing the long-held misconception of using the GDP as a measure of economic progress and national well-being, and to suggest SPI as available alternative that is the best-fit option. The study depends on general and expert views to determine why SPI should be henceforth adopted and the implications and limitations of using the GDP as measures of economic progress and national well-being.

## 7. Recommendations, Contributions to Knowledge and Implication for Practice

### 7.1 Recommendations

Based on the discourse of this study the following recommendations are made:

1. While the GDP is not a flawless indicator, it is still an important metric in that it is excellent at enabling good judgment on whether an economy is growing or shrinking. The fact that actions can be taken on this basis (still) makes the GDP a relevant tool and for this reason, this study recommends that the GDP should be maintained as a tool for measuring economic growth only.
2. The study recommends that a new formular for measuring economic growth and national well-being, one which makes for the shortcomings and limitations of the GDP be adopted:  $EP\&NW = GDP (C + I + G + XN) + SPI (B + F + O)$ . This

implies -  $EP\&NW$  (Economic Progress & National Well-being) =  $GDP (C + I + G + XN)$  (Consumption, Investment, Government, Export and Import) +  $SPI = (B + F + O)$  Basic Human Needs Foundation and Opportunity.

3. Because the GDP does not and cannot account for or measure economic activities that take place outside government-sanctioned channels, which can be significant in some nations, and because the GDP emphasizes economic output without considering economic well-being, this study recommends that the Social Progress Index (SPI) be considered in the measurement of Economic Progress and National Well-being

## 7.2 Contributions to knowledge

1. The study demonstrated that there should be a preferred substitute of the Social Progress Index (SPI) to the GDP because of its inability to measure national well-being and development.

## 7.3 Implication for Practice

1. The study strengthens the call for Public Policy Makers, Public Financial and Economic Institutions Managers, Private Sector Players, and Development Partners to de-emphasise the use of GDP and rather adopt SPI as the determinant for all socio-economic and development policy decisions.

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