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Is GDP the best measure of growth?

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No matter how we measure economic growth, it needs to be pursued in a smart way.

The extraordinary economic expansion of the past 50 years was clearly a success in terms of GDP: the world economy is six times larger, and average per capita income has almost tripled. But what about the environmental impact of sustained high economic growth? Or growing concern in the developed world about stagnating median incomes and widening inequality?

There is almost universal agreement that GDP alone is an imperfect metric for growth and prosperity. So we did not take lightly our decision to define growth using GDP in our new report, *Global Growth: Can productivity save the day in an aging world?* But limitations on data across a large number of countries and a long historical time frame meant GDP was the metric that made sense. As the *Financial Times* put it, “GDP may be anachronistic and misleading. It may fail entirely to capture the complex trade-offs between present and future, work and leisure, ‘good’ growth and ‘bad’ growth. Its great virtue, however, remains that it is a single, concrete number. For the time being, we may be stuck with it.”¹

Even so, GDP as a unit of measure has not kept pace with the changing nature of economic activity. Designed to measure the physical production of goods in the market economy, GDP is not well suited to accounting for private- and public-sector services with no output that can be measured easily by counting the number of units produced. Nor does GDP lend itself to assessing improvements in the quality and diversity of goods and services or to estimating the depletion of resources or the degradation of the environment associated with production. Transformative change in technology is not easy to measure using GDP because so much of the benefit accrues to consumers.

¹ David Pilling, “Has GDP outgrown its use?” *Financial Times*, July 4, 2014. For an overview of the evolution of GDP as a measure of economic performance and the challenges in its measurement and use, see Diane Coyle, *GDP: A brief but affectionate history*, Princeton University Press, 2014.

²Per capita GDP as a measure of national economic performance and broader measures of well-being, such as the HDI, are not identical, but they correlate with one another. These correlations reflect positive feedback mechanisms in both directions: healthier, more educated people are more productive, while higher national incomes generate resources that can be used to improve health and public services. For further discussion, see the Human Development Reports, published by the United Nations Development Programme (UNDP) since 1990 (www.hdr.undp.org/en); the Millennium Development Goals reports, as well as the Beyond 2015 reports (www.un.org/millenniumgoals/reports.shtml); and the OECD's Better Life Index (www.oecdbetterlifeindex.org). Also see Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, 2009.

³See, for instance, Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, 2009; Yusuf J. Ahmad, Salah El Serafy, and Ernst Lutz, eds., *Environmental accounting for sustainable development*, World Bank, June 1989; and *Moving towards a common approach on green growth indicators*, Green Growth Knowledge Platform scoping paper, April 2013.

Perhaps most important, GDP was not meant to be an anchor metric for targeting national economic performance or a measure of national well-being. For the latter, there are many alternative measures, including the Human Development Index (HDI), introduced by the United Nations in 1990, and the OECD's Better Life Index.²

So while we have used GDP to define growth in our report, we welcome the portfolio of initiatives that aspire to improve the GDP accounts, define new metrics of importance, and create dashboards that reflect a more robust picture of well-being. Statistical agencies, including the Bureau of Economic Analysis in the United States, have been continually refining the GDP-measurement system in recent efforts to improve insights into income distribution and consumer surplus. Others are calling for a new metric or set of metrics—the dashboard approach—to capture elements of mental and emotional health and sustainability.³

No matter what measure is used or how it is calculated, we urge the pursuit of smart growth rather than a focus on maximizing a single number. Sustaining rapid gains in productivity and standards of living requires leaders, in both the private and public sectors, to think about not only every aspect of how organizations operate but also the trade-offs that may be required. Increasing competition, for example, is good for productivity over the long term but may hurt incumbents that benefit from current regulations. Making big data widely accessible and easy to use creates opportunities but also raises privacy and data-protection issues. More flexible labor markets in an era of increasing global competition may increase the anxiety of workers employed today.

Whether growth is measured by GDP or any other metric, its pursuit has real-world implications. Any new conversation needs to include fundamental questions about how the world economy is run, and every assumption about growth and the role it plays in people's lives needs to be robustly debated. □

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