**Q: Explain the relationship between GDP and Welfare.**

**Ans:** Gross Domestic Product (GDP) is the sum of all economic activity in a country, and welfare is the sum of all the state's welfare spending. Gross domestic product does not actually do a good job in displaying growth.

If a person has more earnings, he or she can purchase more commodities and services and his or her material well being enhances. So, it may seem rational to treat his or her income degree as his or her degree of well being. GDP is the total of the value of commodities and services created within the geographical frontier of a nation in a particular year. It gets allocated among the people as earnings (except for retained incomes). So we may be persuaded to treat the higher degree of GDP of a nation as a hint of greater well being of the people of that nation

Gross Domestic Product can be defined as:

*The market value of all the goods and products produced or provided within a country at a given moment in time.*

*There are various ways to determine the GDP of a country, there is the expenditure approach or the production approach. The expenditure approach is:*

*GDP = private consumption + gross investment + government spending + (exports-imports)*

This identifies the first issue in which GDP fails to accurately measure the welfare of an economy. The calculation of GDP at no point involves whether or not the welfare of the people has improved, GDP is used as an indicator of a standard of living because the central variables tend to attribute towards factors that improves people's welfare within an economy. GDP should be considered as an indicator of economic activity.

However, GDP is regularly criticised for not presenting a fair view of welfare. If GDP is a poor measure of welfare, focusing one-sidedly on increasing GDP may lead to misguided political decisions.

A number of factors of major significance to welfare are not included in GDP. Accordingly, a number of alternative measures of welfare, so-called welfare indicators, have been proposed. Some welfare indicators are based on the national accounts. A number of other factors affecting welfare, e.g. leisure time, health condition and level of education, are subsequently included. These welfare indicators do not seem to provide a significantly better picture of welfare due to the strong correlation between e.g. health and education and GDP.

In addition to being a poor measure of welfare, GDP is also criticised of not including sustainability. Sustainability can be viewed as ongoing maintenance of necessary resources, e.g. the capital stock, the "natural capital" measured by the quantity of natural resources and environmental quality as well as the amount of human capital. Indicators illustrating sustainability should be analysed in parallel with welfare indicators, however, in order not to conflate current welfare with indicators of potential future output.

Therefore GDP as an indicator of prosperity should play a key role in the welfare debate. Increased prosperity can be used to improve areas that are deemed to be central to welfare. Furthermore, GDP is strongly correlated with a number of factors of importance to welfare, including unemployment, health and education. Aspects affecting welfare but not included in GDP should be part of the political debate, but they should not necessarily be comprised by a single welfare indicator.

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