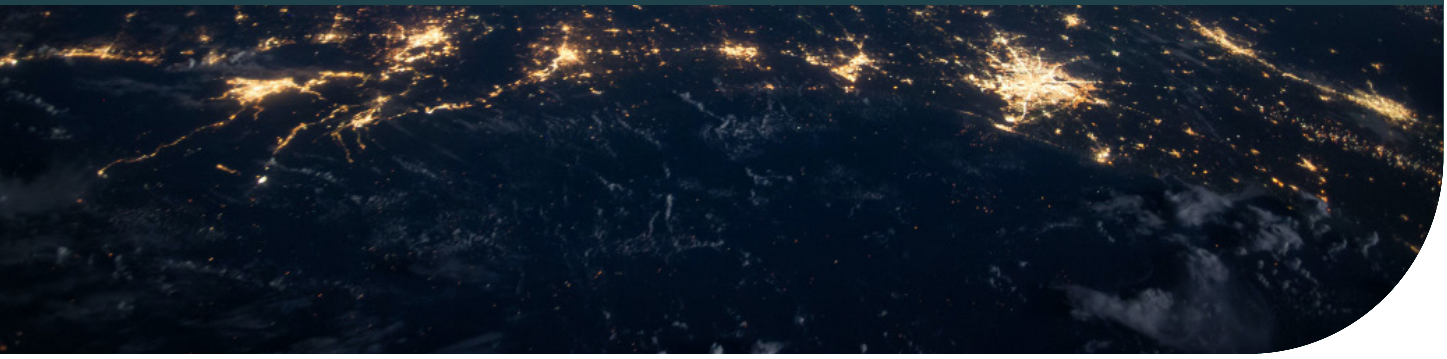

BRIEFING #10 HOW GDP IS USED

Various dependencies on growth – be they substantive or a matter of perception and assumption – combine to position Gross Domestic Product as a proxy for not just economic welfare, but welfare more generally, and even the success of a country. Here are some examples of how GDP is used in public policy.

POLITICAL COMMUNICATION

GDP is an apparently simple single figure used to denote improvement – its rise and speed of increase are taken as a signal that things are better or worse.[1, 2] As the OECD explains, GDP is frequently used as 'synonymous with societal progress'[3], regardless of the fact that GDP was never intended to play this role.[4] For example, media and political opponents hold incumbent governments accountable for growth, as measured by GDP, more so than other metrics, often framing changes in GDP as indicative of a government's competence.[5] Economic outlooks are presented in terms of GDP either slowing or rising (see the dominance of discussion of GDP in the most recent Intergenerational Report[6], for example). The perceived problem of a country's debt is determined by its magnitude compared to GDP. Such 'maximalist' use of GDP, as a proxy for how a nation is performing, is beyond what GDP was designed for.[7] This outsized function as a proxy for success and ideas of development appears in cross-country comparisons where GDP is integral to country rankings – and this feeds into decision-making prowess in (and even entry to) various international groupings and decision-making fora (such as the G7).[8,9, 10]

INTERNATIONAL AND DOMESTIC RULES

International accounting standards and fiscal rules within governments reinforce the influence of GDP.[11] In 1947, the United Nations began promoting adoption of standardised accounts by governments,[12] and these became the UN System of National Accounts, which have a strong focus on production and GDP as a headline indicator.[13,14] These systems were part of post-war policy developments whereby institutions such as the IMF, the World Bank, and the WTO (originally the GATT) were established to promote economic growth.[15] GDP accounts became an 'economic version of "magnetic North" '.[16] GDP is used to calculate or determine various goals or qualifications, from credit ratings to interest rates in international loans and qualification for international aid.[17] The International Monetary Fund, for instance, uses GDP to determine how stable national economies are, and the World Bank uses GDP to decide the size and interest rate of loans. The headquarters of the IMF is even linked to a member country's GDP.[18] The EU Stability and Growth Pact (the 'Maastrict Treaty') permits government spending on public goods in relation to GDP growth, retained in the new Fiscal Compact that requires fixed ratios of GDP to public deficits and debt (the 'golden rule').[19]

In Australia, the first official estimates of national income were released in 1938. Soon after, a set of 'National Accounts' (adding expenditure to the estimates of income) was published. Today, various fiscal rules reinforce the prominence of GDP. For example, in recent years up until the 2023 budget[20] there was a tax-to-GDP cap of 23.9%.[21] For their part, in the current budget (as opposed to the capital budget) Budget Process Operational Rules (BPORs) and the workings of the Expenditure Review Committee ensure financial boundaries (and associated mindsets) prevail. For example, new proposals (referred to as New Policy Proposals: 'NPPs') must be accompanied by plans for offsetting expenditure elsewhere (with what is deemed to constitute a 'genuine saving' being rather limited to immediate effects that do not capture the impact of prevention and a flourishing society).[22]

POLICY DECISIONS

Government spending is often justified as contributing to economic (GDP) growth. For example, a particular sector will merit support because it contributes a certain percentage of GDP: the bigger the contribution to GDP, the more likely that industry will have political sway.[23] The magnitude of investment in areas such as R&D or early years education is framed as a percentage of GDP. GDP also informs estimates of tax take, providing a sense of the 'fiscal envelope' and therefore the policies which can be paid for. These dynamics are seen in the extent that falls in GDP drive efforts by the government to bolster it, to 'get back to growth' and to 'stimulate the economy'. The point is that while other goals exist, they rarely have the same level of influence on government and when GDP falters, other goals are deprioritised and even forgone in efforts to boost GDP. Together with the public relations and deep-seated ideas about the inherent benefits of growth, this means that often the 'only policy alternatives deemed laudable are those in line with the growth paradigm'.[24] An example of this is evident in government departments articulating their role as contributing to economic growth, often preceding mention of their nominal function.

THE PERVASIVENESS OF GDP

There are some who downplay the role that GDP plays in policy and budget formulation. Other agendas do come into play, of course, but their existence does not cancel out the prominence of GDP and the overall assumption that 'a growing economy is good'. GDP may not be a unilateral veto on all decision making, but it is a core measure of progress that shapes many implicit assumptions and agendas. Many propositions are put forward with growth dividends as one of the key outcomes, if not the key outcome. Social policy and government spending is often necessary to attend to the damage done by the current economic system. Finally, it is almost impossible to find a policy decision that is taken, assessed, or scrutinised with the reality of finite planetary boundaries and thus the environmental limits to growth in mind.

ABOUT THIS SERIES:

These mini-briefings look at the idea of a wellbeing economy, how it relates to other ideas for economic change, and what some of the core elements of a wellbeing economy are. They reflect on why Australia needs to build a wellbeing economy.

This series of 'mini-briefings' attempts to clarify terms and expressions and associated wellbeing economy ideas so that discussions can take place from a basis of shared understanding and language.

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