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Auswakeup Media
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GDP Review c/o The Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA

Prologue

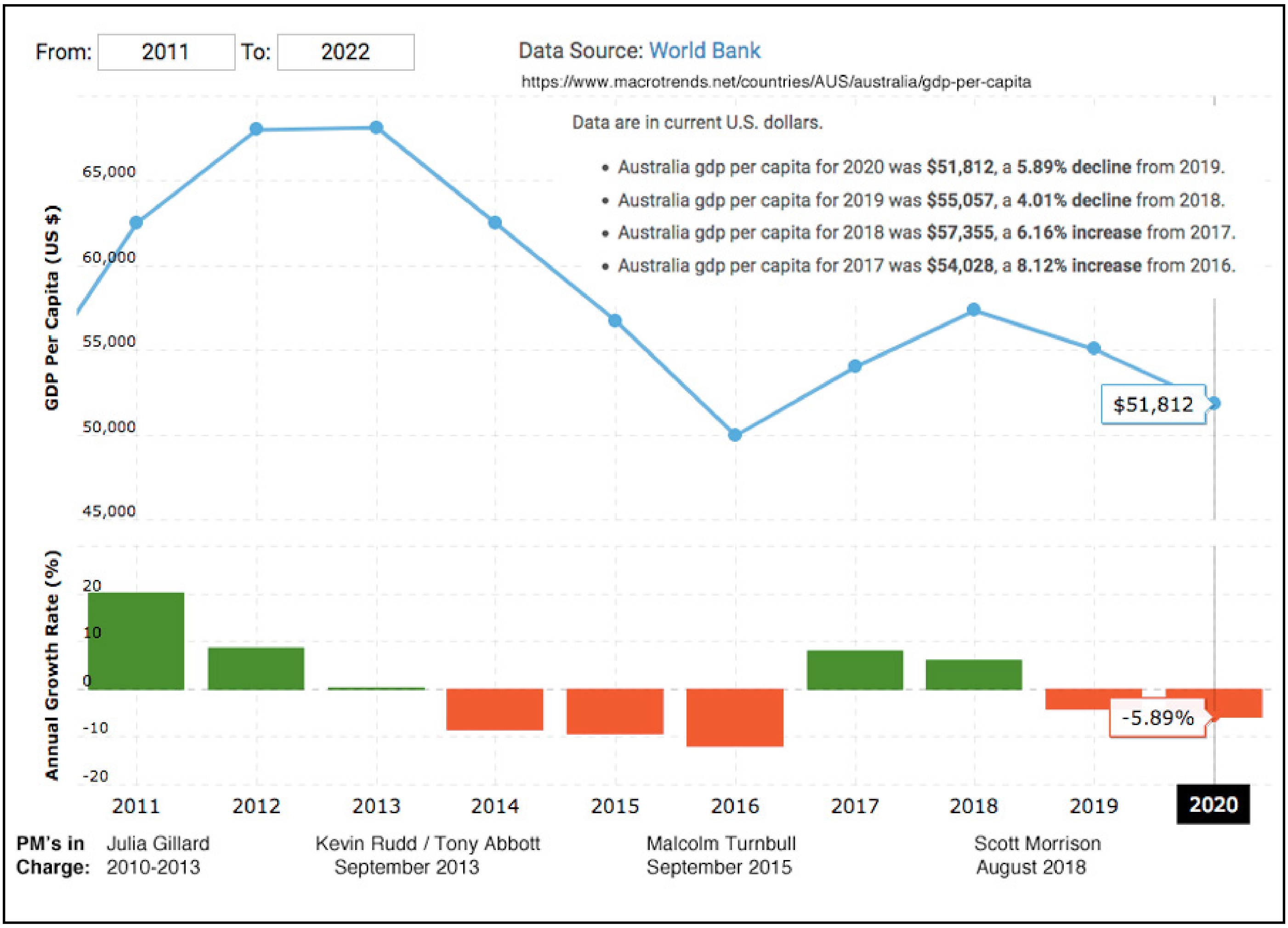
My name is John Haly; I am – as described by my most recent publication in [Economic Reform Australia]() – a "*freelance journalist. He has published extensively on a range of economic, political and social issues. John is secretary of the film collaborative, NAFA, and is a founding member of the Australian Arts Party. He also possesses a B.Bus degree, and is studying for the degree of Master of Economic Sustainability.*" I am submitting this review to evoke a shift in conversation in the upper echelons of political and economic dialogue that will eventually see us move away from the antiquated measures of GDP as begun by Richard Stone in the post-WW2 era. With that respect, I am alluding to the history and years of resistance to the GDP lead perspective, pointing out its innumerable faults especially given the goal mentioned in the opening paragraphs of your website page, "Measuring what matters". My recommendations are for Australia to progress to a GPI economic evaluation, especially with the economic and environmental challenges facing us in the 21st century.

My Assessment.

John Maynard Keynes' *colleagues*, under the guidance of *Richard Stone*, produced the preponderance of the Gross Domestic Product statistics we use today. These are a direct result of Keynes' concerns about the paucity of statistical data on national output and spare capacity in the 1940s. Conceived initially as the Gross National Product (GNP) or Gross National Income (GNI), it was essentially the same formula used to calculate GDP. Everything in GDP was included in GNP, the exceptions being that GNP added net domestic resident income from overseas investments and subtracted net foreign resident income from domestic investments. The idea of GDP, which measures monetary transactions at their market price between willing counterparties, was established in 1958.

But by the early 1970s, there was a lot of opposition to GNP expansion as a viable national objective. Economists who felt compelled to respond were *William Nordhaus and James Tobin*. They questioned whether growth was still an appropriate policy goal and measure of welfare. However, fifty years later, we are still using GDP to measure the economy despite innumerable developments in economic discussions promoting better measures. The rise of the *de-growth movement* continues to raise this issue to deaf ears in the political and economic landscape. However, I will put this aside in preference for an evaluation of GDP as a measure of anything worthwhile to Australia.

We need to start with the glaringly obvious omission in GDP being that of the distribution of growth. Rising inequality, as measured by *the GINI coefficient*, demonstrates that most of Australia (except the top deciles) have been in their own recession for years. GDP per capita had been consistently shrinking since the third and fourth quarters of 2018, although signs were evident as early as 2014. However, by the end of 2018, Australia re-entered a *per-capita recession*. "*Australia's economic output shrank 0.2pc per person in the fourth quarter of 2018, after a 0.1pc decline in the third*". By mid-2019, economists predicted a recession as employment growth was slow, unemployment high, and wages were stagnating.

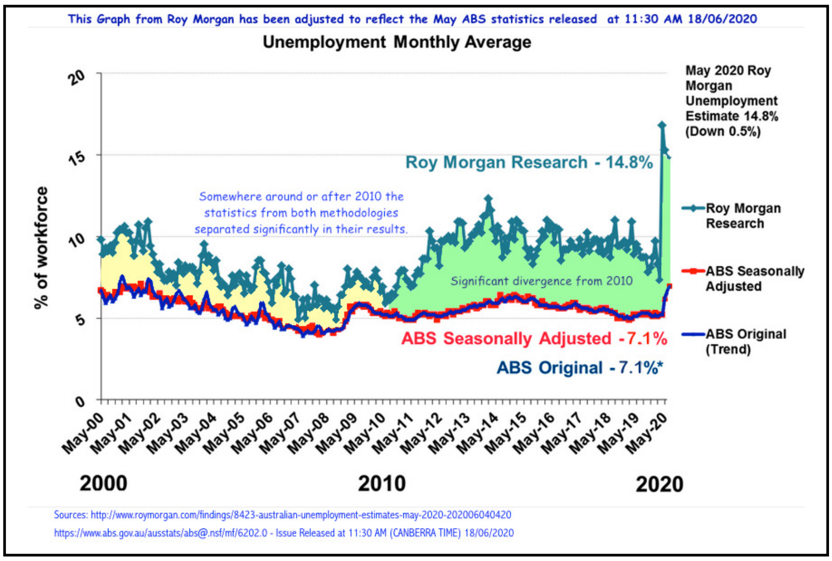


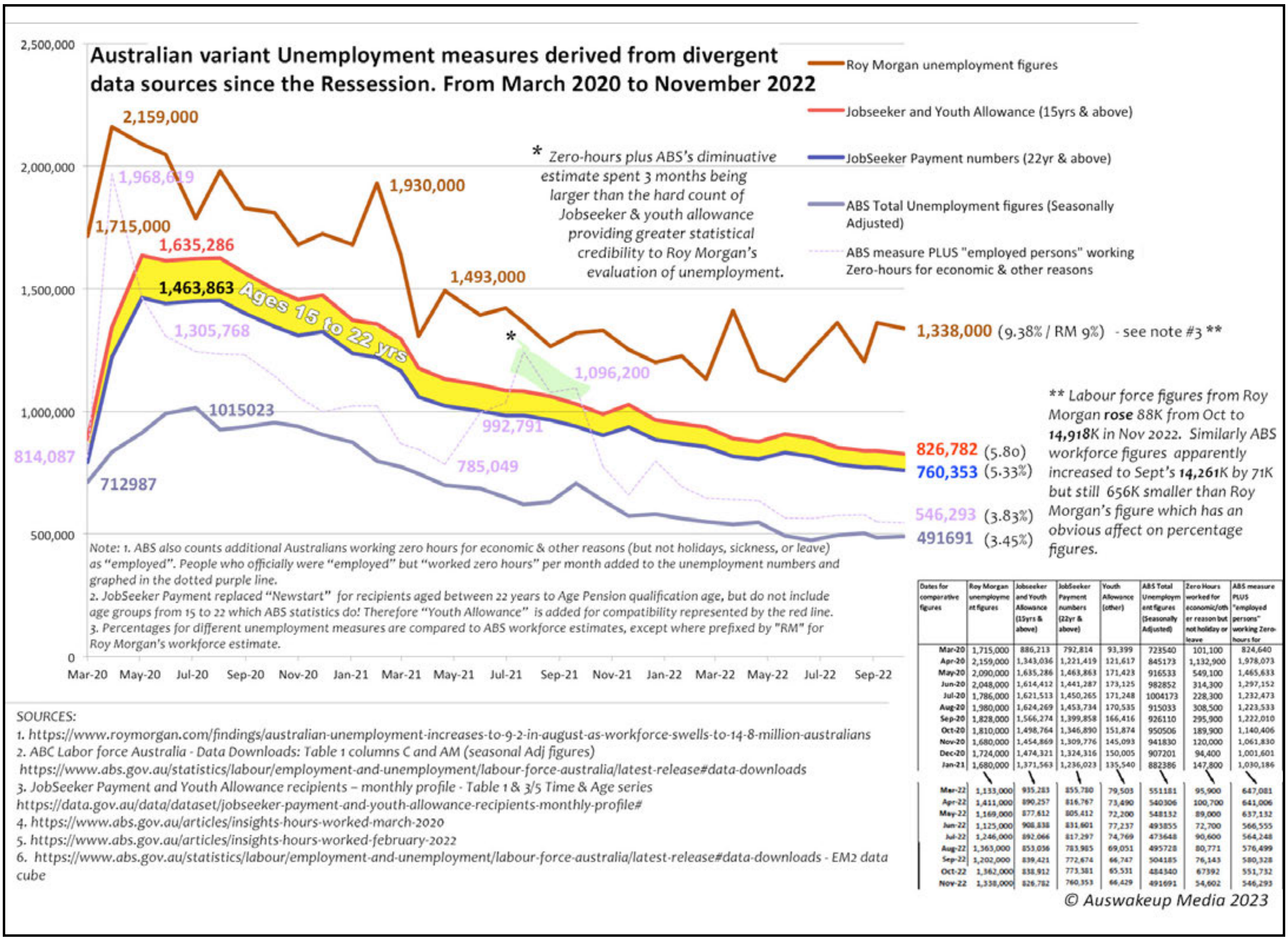
By 2020 we entered the official recession where all wealth deciles were affected. Politicians like to blame the pandemic, but the Australian economy was already fragile before that emergence, and recession expectations were common.

Projected recessions mentioned in 2019 for Australia were widely anticipated by economists but denied by politicians. Even as far back as nine years ago, RBA Governor Glenn Stevens had said the probability of recession in Australia was 100 per cent.

Even today, prospects for future recession have been the vernacular of the day. According to the Deutsche Bank, Australia will experience a recession in 2023 due to anticipated increases in real unemployment. Not, of course, if one is to listen to politicians pronouncing how we have the lowest unemployment in decades.

As usual, they utilise the tiny unemployment subset as measured by the ABS that currently stands as the most undersized measure of unemployment but never the real human domestic unemployment rate. Instead, ABS hides that real unemployment, which, compared to Job Seeker statistics (nearly twice the size) and Roy Morgan's unemployment numbers, makes unemployment look diminutive. Australian politicians report GDP post-pandemic recovery growth and low unemployment. That alone, amid recessionary predictions and fallacious claims of low unemployment, should ring a warning bell that GDP as a measure is highly suspect.





Dates for comparative figures	Roy Morgan unemployment figures	Jobseeker and Youth Allowance (15yrs & above)	JobSeeker Payment numbers (22yr & above)	Youth Allowance (other)	ABS Total Unemployment figures (Seasonally Adjusted)	Zero Hours worked for economic/other reason but not holiday or leave	ABS measure PLUS "employed persons" working Zero-hours for
Mar-20	1,715,000	886,213	792,814	93,399	723540	101,100	824,640
Apr-20	2,159,000	1,343,036	1,221,419	121,617	845173	1,132,900	1,978,073
May-20	2,090,000	1,635,286	1,463,863	171,423	916533	549,100	1,465,633
Jun-20	2,048,000	1,614,412	1,441,287	173,125	982852	314,300	1,297,152
Jul-20	1,786,000	1,621,513	1,450,265	171,248	1004173	228,300	1,232,473
Aug-20	1,980,000	1,624,269	1,453,734	170,535	915033	308,500	1,223,533
Sep-20	1,828,000	1,566,274	1,399,858	166,416	926110	295,900	1,222,010
Oct-20	1,810,000	1,498,764	1,346,890	151,874	950506	189,900	1,140,406
Nov-20	1,680,000	1,454,869	1,309,776	145,093	941830	120,000	1,061,830
Dec-20	1,724,000	1,474,321	1,324,316	150,005	907201	94,400	1,001,601
Jan-21	1,680,000	1,371,563	1,236,023	135,540	882386	147,800	1,030,186
Mar-22	1,133,000	935,283	855,780	79,503	551181	95,900	647,081
Apr-22	1,411,000	890,257	816,767	73,490	540306	100,700	641,006
May-22	1,169,000	877,612	805,412	72,200	548132	89,000	637,132
Jun-22	1,125,000	908,838	831,601	77,237	493855	72,700	566,555
Jul-22	1,246,000	892,066	817,297	74,769	473648	90,600	564,248
Aug-22	1,363,000	853,036	783,985	69,051	495728	80,771	576,499
Sep-22	1,202,000	839,421	772,674	66,747	504185	76,143	580,328
Oct-22	1,362,000	838,912	773,381	65,531	484340	67392	551,732
Nov-22	1,338,000	826,782	760,353	66,429	491691	54,602	546,293

Let's return to the issue of growth distribution. The GINI coefficient is absent from most official economic reports since Hockey unprecedentedly *left it off the MYEFO report in 2014*. GDP, as a measure of the economy as a whole, does so without any regard to either inequality or sub-sections of the economic matrix (wealth deciles) or per capita measures. As such, the *entirely predictable recession* accelerated due to *a wholly predictable pandemic*, was forecastable by the shift into per capita recessive indicators as far back as 2014 (although more consistent by 2018). Any suggestion that everything that has happened in the last decade was unpredictable is disingenuous. It demonstrates the complete failure to pay attention to *the innumerable indicators* preferencing a blinkered deceitful propagandist ideological economic framework of the *neoclassical general equilibrium model.* This should have been abandoned during the earlier financial crises. John Quiggin, a Professor of Economics at the University of Queensland, has been *writing about this* well before this decade. Pandemics were the subjects of medical and documentary warning and analysis years before Covid. GDP has been criticised as an inadequate measure for decades. If the Government really "*is committed to measuring what matters to improve the lives of all Australians*", then even the *Harvard Business Review* recognises GDP is the wrong measure. In all of this, there is nothing new under the sun in what recent years have inflicted on this country – and the world – that has not been addressed and predicted but here we are asking questions about our ideological approach as though this was uncharted territory.

Instead, here we are debating outdated economic accounting measures while officially not in a recession according only to the GDP measure. GDP is a poor indicator compared to innumerable alternate choices such as: *HDI*, *GPI*, *OECDBLI*, or *Bhutan's GNH measure*.

We should have shifted away from the deceitful measures long ago. For example, under *Alan Austin's made-up IAREM measure* (which I am not seriously contemplating), Australia's ranking on that economic management had fallen from 1st in the world in 2013 to 21st by the end of 2018 by the time we had only suffered two-quarters of per capita recession. The measure's misunderstanding of national deficits, which predominately supply a surplus of issued M0 money to the equity of the private sector, as a negative, detracts from IAREM as a measure suitable to replacing GDP. Nevertheless, although one journalist's work, illustrates that alternative measures would not put Australia in a glowing perspective, and therein lies the problem. The point is not the "IAREM measure's" worth but the desire to politically turn a blind eye to Australia's economic problems.

Which leads us to examine the question: So where else does GDP fail as a measure?

GDP is not ever a good measure for some things, as there are far better measures of economic performance. But lets, for now, look at GDP and the assumption that all growth is good growth. It fails to measure significant aspects.

1. The savings in renewables. For example, reducing spending on subsidies and savings inherent in energy-efficient devices reflects the failure of GDP to differentiate between efficiencies in productive economic activity. GDP views economic activity as the end not the means to an end. So a coal smelter burning fossil fuel or industry dumping waste that pollutes the rivers and air generates GDP growth is an "end". Industry production and product subsidies (such as the $1.8B to Coal) are not added to the GDP calculation and so skew the accounting valuation in relation to the output of CO2. There is neither a relationship between subsidies and emissions for any given industry nor is there a pricing mechanism on pollution emissions for any industry.
2. Disproportionate subsidies to coal industry versus farming. Farming and Coal may both contribute to GDP but the damage Coal's greenhouse gas emissions are wreaking on the environment harms farming. Farming does not reciprocate this harm (although suffering from it) yet received barely more than half the financial aid granted to the Coal industry.
3. The costs of pollution. Healthcare as a product is added to GDP, increasing the value of it, even if the need for it, reflects detrimental factors in a society like suffering from avoidable pollution related conditions. In essence, we fail to price the "cost of pollution" to our economy but add the health expenditure.
4. Outsourcing pollution which results in GDP adjustments that do not reflect the real impact of our economy on the world. Abbott and Hockey's dismantling of manufacturing to the point that we have the lowest share of manufacturing employment of any OECD country has in no way curbed our appetite for cars or manufactured goods. Manufacturing and Industry were large users of energy in Australia, and by offshoring our manufacturing base to China, Korea and Japan. We have also offshored our industrial emissions. As we continue to de-industrialise and have more of our goods offshore, we are merely outsourcing the costs of coal pollution, and not accounting for Australia's remotely attributed carbon emissions.
5. GDP also *fails to measure numerous indicators of socioeconomic function*, such as health demographics, crime and corruption measures, poverty costs, environmental health/decay impacts, family breakdown, and leisure or commuting costs. But it gauges the output of all of these irrespective of whether it "*improves the lives of all Australians*" or does the reverse. This is because GDP does not represent a country's welfare; it only gauges the size of its economy, failing to "*improve the lives of all Australians*".
6. GDP benefits from crime because money must be spent to rectify damages and maintain/fund a strong police/army/legal administration better served by social workers, better housing, increased welfare and real employment opportunities.
7. GDP values fixing vandalism, property damage, and undesirable medical expenditures over and above forward-thinking mitigation of the risks of medical ill-health. In fact, GDP thrives on ill health, smoking, obesity, fast foods and all manner of negative impacts that generate costs to consumers that do not "*improve the lives of all Australians*".
8. GDP expands through the costly prioritisation of cars, highways, and dirty fuel pollution infrastructure over and above bicycles, bike routes, and pedestrian infrastructure.

This could end up being an overly extensive list, and after a while, as reviewers, you will stop reading, At this point, one has to review other contributions to GDP, including aspects that border on morally objectionable to most Australians if not bordering on criminality:

* Dirty fossil fuel extraction subsidies,
* Payoffs for water licences that destroy ecosystem flows and fish,
* refugee incarceration in unnecessarily expensive offshore locations,
* overtly expensive foreign military equipment, i.e. submarines, planes, tanks (instead of building expertise, employment and manufacturing capacity locally in Australia),
* Repairing damage to flood-damaged communities as opposed to the cheaper foresight of riverbank mitigation works.
* Apply the same principle to fire mitigation where the cuts to fire brigades and parks services had costly longer-term consequences.
* Governments buying properties well in excess of their fair valuation because it facilitates a transfer of wealth to political mates.
* Undertaking a costly plebiscite when all that was required was a vote in parliament.
* The assignment of multi-millions of funds without tender to Palladain, Barrier Reef Foundation, Eastern Australia Agriculture, Webster and others

Of course, these excesses that add bulk to GDP estimates through morally equivocal corruption are but the tip of the iceberg of dubiously overpriced extravagances of government spending that profit the few at the expense of "*improv[ing] the lives of ALL Australians*".

It can be demonstrated that none of these "*improve the lives of all Australians*". GDP doesn't measure human capital costs and has no future predictive value for emerging generations in a manner that improves their lives. However, it is the preferred indicator for public discourse by conservative politicians and economists; in determining whether we are or are not in recession and whether or not lives are improving. We need measures that allow us to manage economic downturns far better than our record demonstrates.

ALTERNATIVES.

The Human Development Index (HDI) and the Genuine Progress Indicator (GPI) are both measures of economic activity that are alternative national volume measures of the Gross National Product (GDP). GDP measures economic volume amorally irrespective of any consideration of whether an economic activity is good or bad for human well-being. HDI and GPI evaluate activities against an index of human well-being.

The Human Development Index examines the three elements of

- income per capita
- years of schooling
- life expectancy

and averages these three indices. Although relatively subjective, these measures are still based on gross national income, irrespective of the morality of how it was earned.

Herman Daly's Genuine Progress Indicator (GPI) is more extensive. It includes income distribution (adjusted for private consumption) and economic activities of social benefit, excluding economically and socially costly or dysfunctional aspects of human activities (i.e. pollution, resource depletion and defensive expenditures). It also includes elements of the commons and household contribution to the economy. There is, however, no single accepted approach for a GPI and no uniform guide for what should be included. This is where Treasury needs to commit to funding the developmental work in this area as once they did with Richard Stone. In addition, in order for GPI to be defined and measured consistently to enable comparisons within a country and internationally, there need to be improvements in ABS data collection and refunding, a service that has suffered repeated cuts by the Government.

Unfortunately, the data presently needed to feed the GPI's statistical information needs to be collected more thoroughly than is currently the case. It is true to state when the data is collected, the methodology differs from country to country, but that is primarily an omission of a lack of appropriate data collection by governments. Such an inadequacy results in the failure to facilitate international comparisons. On the other hand, GDP also suffers from statistical issues in nations with inadequate human resources for statistics collection, and where the statistics lag behind what is happening in the economy. A criticism raised by *the US Chamber of Commerce*. So GDP itself fails the test your briefs asks for to "*be defined and measured consistently to enable comparisons within a country and internationally*". Undermining the statistical

GPI does, although, fulfil the "claimed" criteria of a "*Government [that] is committed to measuring what matters to improve the lives of all Australians.*"

GPI measurements were made at State and National levels by Associate Professor Philip Lawn, as noted in the paper "Lawn, P. (2018) *A Genuine Progress Indicator study of South Australia*: 1986-2016."

Instead of only measuring economic activity, the GPI is intended to evaluate sustainable economic welfare. Therefore, the GPI focuses its methodology on the following basic underlying ideas in order to achieve this.

The inclusion of non-market advantages from the economy, environment, and society that are not reflected in the Gross Domestic Product (GDP), which identifies and subtracts costs such as environmental degradation, adverse effects on human health, and lost leisure time to account for income inequality. In short, it supports any Government that is genuinely "*committed to measuring what matters to improve the lives of all Australians*" and "*adequately cover all policy priorities*" such a government would aspire to achieve.