



GDP

GROSS DOMESTIC PRODUCT

**A 'Plain English Economics' Classroom
Resource for Post-Primary Schools**



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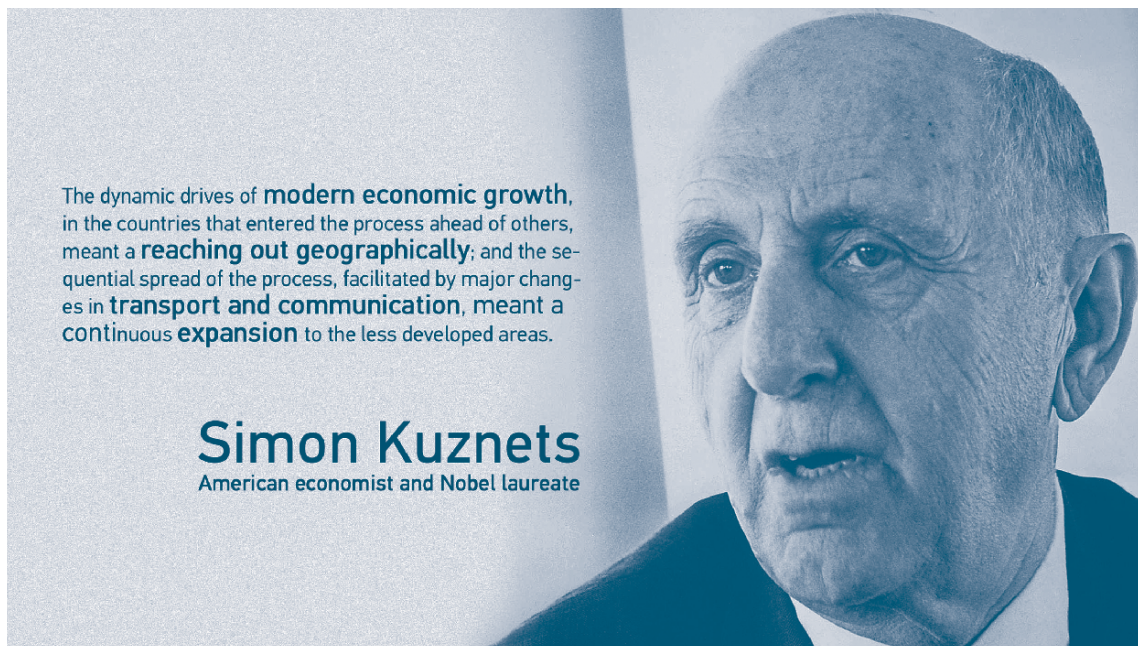
If you were training for a marathon, what type of things might suggest that your running was improving?

If running a distance of say 42km is your goal, then an indicator of progress might be that you can run 21km this Saturday, when you could only run 18km last Saturday. As you run further, you know that you are improving. In order to determine whether we're making progress towards reaching a *goal*, we look at *indicators*.

It's the same when it comes to the economy!

GDP

GDP stands for Gross Domestic Product. It is the most widely used indicator in today's world for assessing the size of a country's economy. What century do you think GDP came about?



What we now consider GDP was actually invented in the 1930s in the USA by a Russian-American economist called Simon Kuznets. He was given the task of figuring out how much could be produced for the military in the USA, to figure out whether they could fight in WW2 or not! Kuznets and two colleagues prepared the first set of national accounts for the USA in 1934. However, the roots of GDP stretch back further to the 17th century - all the way back to Ireland! This very early idea of GDP was linked to the colonisation of Ireland, when the British political economist William Petty carried out the first ever survey of national wealth by systematically analysing the value of the land conquered by Oliver Cromwell in Ireland!

The definition of GDP is “the total market value of goods and services produced within a country,” and it’s usually over the course of one year. It includes all the physical goods produced, as well as the value of services (such as services to businesses like accounting, as well as cafés, restaurants and hotels etc.).

GDP is important in the current economic system because in order for economies to be seen as healthy, GDP needs to grow. A ‘recession’ is usually defined as a fall in GDP in two successive year quarters, and becomes a ‘depression’ when this happens for longer than a couple of years. A reduction in GDP might signify reduced trade and industrial activity, which is important because this will likely have knock-on impacts on employment levels. If there is less activity, it’s likely that there will be more unemployment. However, this is not a given, and the final number showing the growth in the size of an economy masks other things.

There are a few things to keep in mind when it comes to GDP:

1. GDP does not distinguish between activity that causes harm or brings benefits to that nation’s population, populations overseas or future generations. An example of this is as follows: if there is an oil spill in the sea, then the necessary clean-up of the beaches and ocean results in an increase in GDP, which is counted as a positive on the accounting sheets of the country.

But is an oil spill positive?

2. GDP counts the exploitation of natural resources as good for GDP, for example extracting oil or gas. This is because it counts flows (changes) rather than stocks (non-changing resources) of wealth.
3. GDP does not give information relating to the distribution of wealth. In other words, it doesn’t count inequality in its calculations. Inequality may increase even as GDP increases, as more wealth flows to those who are already wealthy.

GDP per Capita
is a measure of a country's economic output that accounts for its number of people

It divides the country's gross domestic product by its total population

$$\text{Per capita real GDP} = \frac{\text{Real GDP}}{\text{Population}}$$

The infographic features a dark blue background with a faint map of the United Kingdom. At the bottom, there is a bar chart with five bars of increasing height from left to right. Each bar is topped with a group of stylized human figures, representing population. The figures are also of increasing size and number from left to right, illustrating the relationship between population and economic output.

4. Maintenance of GDP is also critiqued from a feminist point of view. This is because GDP does not give value to activities that don't involve monetary transactions. An example of this is domestic or caring work. Much of this work is done by women, especially in the Global South - the exclusion of this work in GDP calculations changes how the contribution from women to the economy globally is perceived.

Can you think of somebody in your life who does a lot of work - without which life would be very difficult - but who does not get paid?

So what? GDP is just a number, right?

Yes, it is just one number for each country every quarter or every year, but the impacts of GDP are hugely important to global justice. These are just some of the ways GDP is impactful.

1. The International Monetary Fund (IMF) which lends to countries in need (often attaching conditions which force reductions in spending on public services) uses quotas to calculate the number of votes for each country. So these quotas are important. And how are these quotas determined? Half of the formula that calculates the quotas, which partly determines the number of votes a country has, is determined by the country's GDP. The higher the GDP, the more likely it is that they will get more votes, and therefore more influence over the rules that determine what the international financial system looks like ¹.

“Quota subscriptions are central to the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. A member country's quota determines its maximum financial commitment to the IMF, its voting power, and has a bearing on its access to IMF financing.” (IMF Fact Sheet)

2. Quotas also determine the maximum amount of financing a member can obtain from the IMF under normal access. So the lower your GDP is, the less you can borrow.
3. Because GDP does not reflect the negative things that may be happening to the environment, GDP can rise (seen as a good thing by politicians) while the environment is being harmed or climate change is getting worse! This is important because the impacts of climate change are causing most harm to the people who have done the least to cause it, and will cause the most harm to young people and future generations.



¹ <https://www.brookings.edu/blog/future-development/2019/07/01/the-governance-of-the-international-monetary-fund-at-age-75/>

ACTIVITIES TRUE FALSE

1. Robert F. Kennedy once said “the welfare of a nation can scarcely be inferred from a measurement of national income. If the GDP is up, why is America down? Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what.”

TRUE FALSE

2. Simon Kuznets said that GNP (Gross National Product, a close cousin of GDP which was more common at the time) “measures everything in short, except that which makes life worthwhile.”

TRUE FALSE

3. GDP is an invention.

TRUE FALSE

4. Volunteering is included in GDP. For example, if more people volunteer to clean beaches or canals, GDP rises.

TRUE FALSE

5. Spending on military warfare is included in GDP.

TRUE FALSE

6. Two countries can have the exact same growth rate over a given period, even though one has managed to reduce economic inequality but in the other, inequality has increased.

TRUE FALSE

7. Joseph Stiglitz, a Nobel laureate in economics, said: “GDP is a good measure of wellbeing.”

TRUE FALSE

Answers

- 1 **False.** Simon Kuznets said it, warning the US Congress in 1934.
- 2 **False.** Robert F. Kennedy said this in a famous speech!²
- 3 **True.** It has been defined as “one of the great inventions of the 20th Century,” or even “The great invention”.
- 4 **False.** GDP does not include volunteering.
- 5 **True.** In fact, it was a political decision to include it around the time of WW2, so that Americans would support the war.
- 6 **True.**
- 7 **False.** He said, “GDP is not a good measure of wellbeing.”

² <https://www.jfklibrary.org/learn/about-jfk/the-kennedy-family/robert-f-kennedy/robert-f-kennedy-speeches/remarks-at-the-university-of-kansas-march-18-1968>

DISCUSSION ACTIVITY



Students, in pairs, can choose and discuss one of the quotes and accompanying questions below:



1. “Not everything that can be counted counts, and not everything that counts can be counted.”

What is currently counted that might not count or matter?

What is not currently counted in GDP that might in fact count, or matter?

2. “A country could exhaust its mineral resources, cut down its forests, erode its soil, pollute its aquifers, and hunt its wildlife and fisheries to extinction, but measured income would not be affected as these assets disappeared.”³

What would you measure if you were a politician trying to prevent the worst impacts of climate change from happening?

³ (Repetto et al., 1989: 2-3 cited in Ekins, 2000: 126, as cited in Parrique, 2019)

RESEARCH ACTIVITY



Students can research one of the following economic indicators. They have the choice as to what aspect(s) of the indicator to research.



- Genuine Progress Indicator (GPI)

- Gross National Happiness Index (GNH)

- Happy Planet Index (HPI)

- The Organisation for Economic Cooperation and Development (OECD) - Better Life Index

- Sustainable Development Goals (SDG) Index

- Wellbeing budget (New Zealand)

Prompts:

What does it measure?

What does it not measure?

Has it been / is it being used anywhere in the world?

Could you see any problems with using this measure?

