GDP-based Targets in International Organisations

Most GDP-based targets set in the framework of different international organizations, be the EU, NATO or the UN, **are indicative recommendation or aims**, consequently **not binding** and therefore **cannot trigger any sanctions if not met**.

One of the few **sanction procedures** for not attaining a set target is the **EU excessive deficit procedure** (EDP). The grounds for an eventual financial "punishment" lays self evidently in a binding agreement *Stability and Growth Pact (SGP)* that is enshrined in the Articles 121 and 126 of the *Treaty on the Functioning of the European Union*. The SGP foresees that budget deficit and public debt of any single Member State cannot exceed 3% of deficit to GDP and 60% of debt to GDP levels. The surveillance of the fulfillment of these targets is carried out by the European Commission. In case of non-compliance with the agreed target levels the Commission starts the EDP procedure that may result in the form of a fine of 0.2% of GDP.[1]

Despite of sanctions, the balanced budget targets have not been respected by a large number of the EU members. For instance France has exceeded the set target for years, but has always escaped the sanction. Instead the correction mechanisms were reviewed. An overview of ongoing excessive deficit procedures can be found on the EC website:

http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

United Nations Development Aid 0,7% Target

The best-known target in international aid sphere proposes that each economically advanced country will progressively increase its official development assistance (ODA)[2] to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7% of donors' national income (GNI).[3]

Major milestones:

- **In 1970**, the 0.7% ODA/GNI target was first agreed in an UN resolution and has been repeatedly re-endorsed at the highest level at international aid and development conferences:
- **In 2004**, the 15 countries that were members of the European Union in 2004 agreed to reach the target by 2015
- the 0.7% target served as a reference for 2005 political commitments to increase official development assistance (ODA) for the EU, the G8 Gleneagles Summit and the UN World Summit [4]

State of Play

In 2012 there were only 5 countries that reached the UN 0,7% development aid target:

- Luxembourg, Sweden, Norway, Denmark and the Netherlands.

History

In 1958, discussions of official aid targets were based on total flow of both official and private resources going to developing countries. The World Council of Churches first suggested a target of 1% and during the 1960s all OECD's Development Assistance Committee's (DAC) members subscribed to it. But it had a major flaw: governments cannot control or predict private capital flows, nor can they adjust official flows to compensate for fluctuations in private flows. Efforts to correct this concentrated on elaborating a sub-target for official flows.

A target of official flows of 0.75% of GDP was proposed to be reached by 1972, based on work by Nobel-Prize winning Jan Tinbergen, who estimated the inflows required for developing economies to achieve desirable growth rates.

[1] More information on Commission website: http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm
[2] http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm
[3] http://iif.un.org/content/un-target-oda-global#sthash.6LR8ZN1t.dpuf

[4] http://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm

In 1969, the Pearson Commission – in its report Partners in Development – proposed a **target of 0.7% of donor GNP** to be reached "by 1975 and in no case later than 1980." This suggestion was taken up in a **UN resolution on 24 October 1970**. Although, generally accepted, at least as a long-term objective, the 0.7% target for ODA (official development aid), generated some notable exceptions: Switzerland – not a member of the United Nations until 2002 – did not adopt the target, and the United States stated that it did not subscribe to specific targets or timetables, although it supported the more general aims of the Resolution.

With the revised System of National Accounts in 1993, gross national product (GDP) was replaced by gross national income (GNI), an equivalent concept.[5]

More information:

- Good graphical overview of the Official Development Aid (ODA) by country as a percentage of Gross National Income (GNI) and in absolute figures:
  - http://www.oecd-berlin.de/charts/oda2012/index.php?cr=dac&lg=en
- Brussels EU target for 2015 ODA (with an excel table at the end)
  - http://iif.un.org/content/brussels-eu-target-2015-oda
- Good interactive chart (possibility to compare a single country's performance against total Development Assistance Committee -DAC) of ODA trends from 1960 to 2012 among the OECD DAC members:
  - http://www.oecd.org/dac/stats/odatrendsfrom1960to2012.htm
- Link about cuts in aid as governments tighten the budgets:
  - http://www.oecd.org/newsroom/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm
- Global picture of the official development assistance:
  - http://www.oecd.org/dac/stats/data.htm

NATO Defence Expenditure 2% target

NATO defence expenditure target is an aim and not a binding commitment. There are no sanctions if set targets are not met.

Since 1963, an annual compendium of financial, personnel and economic data for all NATO member countries has formed a consistent basis of comparison of the defence effort of Alliance members based on a common definition of defence expenditure[6].

The comparative data covering the years from 1949 to the present can be found:

http://www.nato.int/cps/en/natolive/topics_49198.htm?selectedLocale=en

State of Play

In 2011[7] (the latest data available) **only two European allies had reached the 2% target – UK and Greece**. Four devoted less than 1%[8]. The average European defence expenditure is 1,6% compared to the US that contributed in 2011 4,8% of their GDP for defence. This gives an NATO average of 3,1% of the GDP.[9]

[5] Idem
[6] The figures represent payments actually made or to be made during the course of the fiscal year. They are based on the NATO definition of defence expenditure. In view of the differences between this and national definitions, the figures shown may diverge considerably from those which are quoted by national authorities or given in national budgets.
[7] Financial and Economic Data Relating to NATO Defence http://www.nato.int/nato_static/assets/pdf/pdf_2012_04/20120413_PR_CP_2012_047_rev1.pdf
[8] Iceland is not counted in NATO comparative tables as it does not have defence forces.
[9] Please note, that the NATO average defense spending 3,1% of GDP is calculated by summing up the European and North-American averages and dividing it by 2, that makes the figure considerably bigger than by calculating the average of 27 countries.

Compared to 1990s, there has been a remarkable decrease in contribution in almost all NATO member countries. For instance, the average defence expenditure figures from the period 1990-1995 show that nearly all alliances' members[10] were close or over the 2% GDP target with an exception of Luxembourg and Spain[11].

As states the Secretary General of NATO Mr. Rasmussen: "Beyond the overall decline in defence spending, a particular concern is the current asymmetries in defence spending and military capacity among European Allies as well as between European Allies and the US. The statistics also reveal that since 1991, the non-US share of NATO's defence spending has fallen from 35% to 23%."[12]

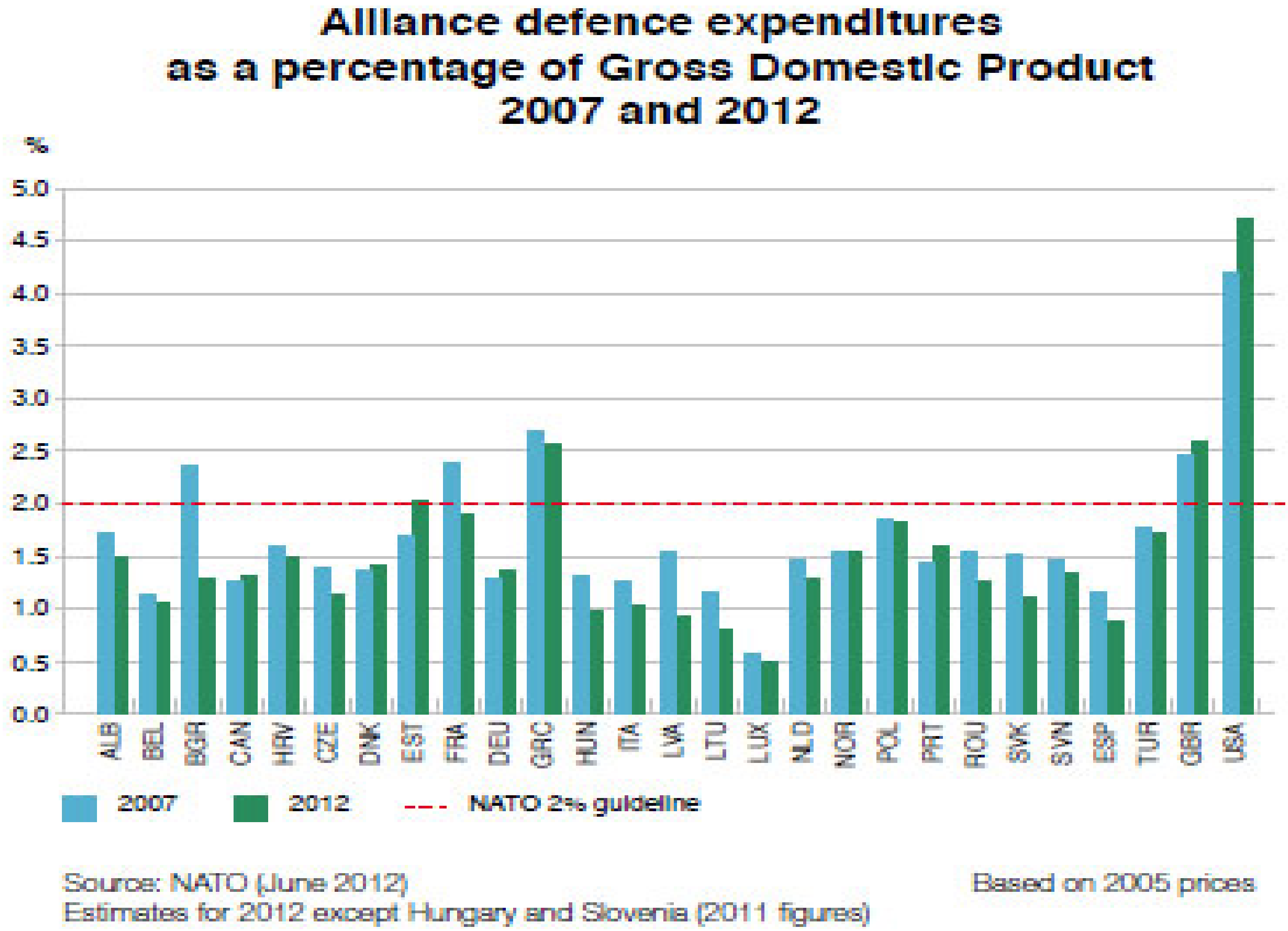
Illustrative examples of recent reiterations of the 2% GDP defence target

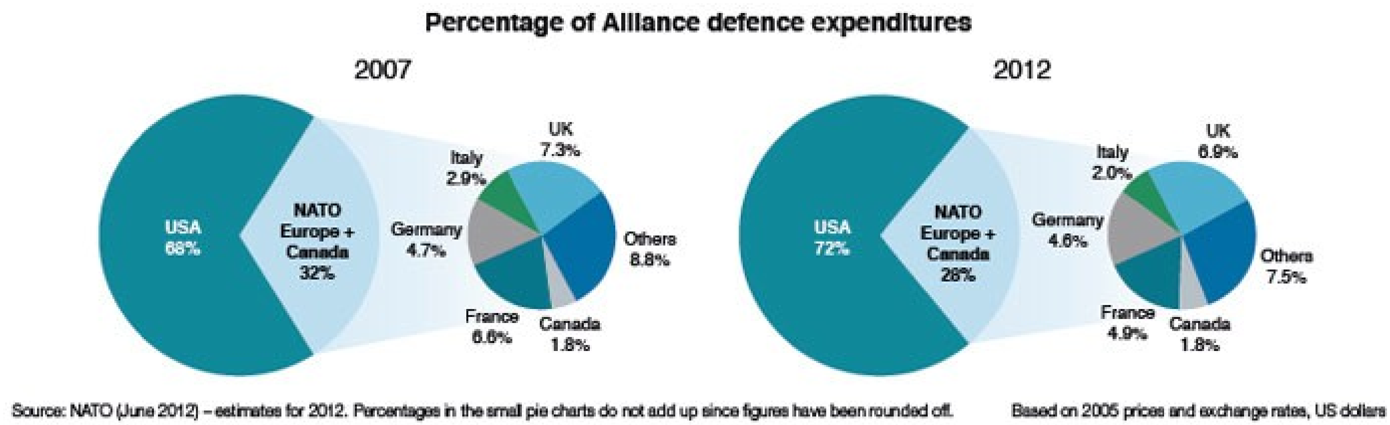
In 2006 NATO defence ministers agreed that: "Allies who currently devote to defence a proportion of GDP which is at or above 2% should aim to maintain the current proportion. Nations whose current proportion of GDP devoted to defence is below this level should halt any decline in defence expenditures and aim to increase defence spending in real terms within the planning period. (DPC-D(2006)0004, 7 June 2006) The Heads of State and Government reiterated this position at the Riga summit in November 2006: "We are committed to continue to provide, individually and collectively, the resources that are necessary to allow our Alliance to perform the tasks that we demand from it. Therefore, we encourage nations whose defence spending is declining to halt that decline and to aim to increase defence spending in real terms."

NATO has also other quantitative benchmark targets as 20% of military spending allocated to investment or a 50% target of deployable forces, but all of them are only partly fulfilled. However, it has been stated that in the context of NATO the capability targets are perhaps more relevant than the GDP target as capability targets set concrete timeframes against which the targets can be measured.

[10] In 1990 the alliance counted 16 members
[11] Financial and Economic Data Relating to NATO Defence http://www.nato.int/nato_static/assets/pdf/pdf_2012_04/20120413_PR_CP_2012_047_rev1.pdf
[12] http://www.nato.int/cps/en/natolive/news_91256.htm?selectedLocale=en

Illustrative charts on the share of NATO defence budgets[13]:





[13] http://www.nato.int/cps/en/natolive/opinions_94220.htm?selectedLocale=en

EU 3% Research and Development target:

The European Union set a 3% of the EU's GDP (public and private combined) **target to be invested in research & development (R&D)/innovation in its 2020 Strategy**. **The target is an indicative recommendation, no sanctions are foreseen if the target is not met.**

History

The Barcelona European Council in 2002 set the objective of raising the EU's overall R&D investment to approach 3% of GDP by 2010. In the revision of the Lisbon Strategy in 2005 the 3% target was retained. As in 2010 the 3% overall investment target to R&D was still not met (in spite of a substantial increase of the overall EU R&D expenditure between 2000 and 2008), the European Council reaffirmed in March 2010 that the overall R&D investment level should be increased to 3% of EU GDP as part of improving the conditions for research and development[14].

http://ec.europa.eu/research/era/areas/investing/investing_research_en.htm

State of Play[15]

The EU figures[16] **show that the target was in 2011 reached by 11 countries**: AT, BE, DE, DK, EE, ES, FI, FR, PT, SE and SI, with Finland and Sweden investing even over 4% of their GDP to R&D.

At the same time the OECD data shows that among the EU countries being also members of the OECD, only 3 Nordic countries pass the 3% GDP investment level to the R&D[17].

Relevant documents:

- European Council Conclusions, 25/26 March 2010, EUCO 7/10
    - http://ec.europa.eu/research/era/docs/en/era-partnership-council-of-the-eu-03-2010.pdf
    - page 2, point 5 (b) states: The European Council agreed on the following headline targets, which constitute shared objectives guiding the action of the Member States and of the Union:
        - improving the conditions for research and development, in particular with the aim of bringing combined public and private investment levels in this sector to 3% of GDP; the Commission will elaborate an indicator reflecting R&D and innovation intensity;
- Barcelona European Council, Presidency Conclusions 15 and 16 March 2002
    - http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/71025.pdf
    - R&D 3% GDP target is on p 20, para 47
- A Commission communication (2002) specifies the guidelines given by the Council and besides urging the MSs to raise their contribution to R&D states:
    - "Current and future Member States cannot all be expected to meet this target individually by 2010 but they should all contribute to the effort."
- Communication from the Commission - More research for Europe - Towards 3% of GDP; / COM/2002/0499 final
    - http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2002:0499:FIN:EN:PDF
- Europe 2020 targets as a table
    - http://ec.europa.eu/europe2020/pdf/targets_en.pdf

This research was carried out for the European House for Culture, the Brussels office of "A Soul for Europe," by Riia Salsa.

[14] Council Conclusion, although reached unanimously by all heads of state and government, are political guidelines and not legally binding commitments.

[15] Different sources give different figures, with the EU official figures being more optimistic that the figures by OECD, World Bank.

[16] http://ec.europa.eu/europe2020/pdf/targets_en.pdf

[17] http://www.oecd-ilibrary.org/sites/factbook-2011-en/08/01/01/08-01-01-g1.html?contentType=&itemId=/content/chapter/factbook-2011-68-en&containerItemId=/content/serial/18147364&accessItemIds=&mimeType=text/h