GDP, WELLBEING, AND HEALTH: THOUGHTS ON THE 2017 ROUND OF THE INTERNATIONAL COMPARISON PROGRAM

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Highpoints from the 2017 round

- That we thought were of wider interest than just the audience who would read the report
- From which we shamelessly quoted
- Opinion piece in the *Financial Times*
  - Focusing on the richest countries and their characteristics
  - Who and why
  - The effects of globalization and footloose "capital"
- Longer article forthcoming in *Review of Income and Wealth*
  - Thank you Prasada!
We still need GDP!

- Even though we acutely understand its limitations
- Current focus on health
  - But demands for GDP data high during the pandemic
- More comprehensive measures depend on and modify GDP

- No apologies for providing it on an internationally comparable basis
Most important message from 2017

- There is no message! Or at least no startling news
- The numbers are not very different from what would have been expected by extrapolating from 2011 round
  - Though there are some differences
  - But no systematic pattern, e.g., by region
- We hope, and expect, that this consistency will hold into the future
  - It was a very deliberate aim of the 2017 round
  - In future, ICP will be more of a rolling basis
  - Like EUROSTAT/OECD current procedure
- Consistency is important for ICP to retain its relevance
- Main country rankings similar to 2011
Health

- Health is not included, though health expenditures are included.
- In the past, there has always been a close relationship between GDP per capita and health:
  - “Wealthier is healthier”
  - “Growth is the best medicine”
  - “Health promotes growth”
- Formalized in the Preston Curve, first drawn by Preston in 1975:
  - There are lots of exceptions
  - Like the US, or China
COVID-19 pandemic

- Doesn’t look like this
- Deaths have been higher per capita in richer countries
  - Graph is for year 2020, next slide
  - Still true as of May 2021
- And the declines in GDP have been larger in richer countries, next slide
  - May or may not still be true or continue to be true
  - Most forecasts argue not
- Note that this DOES NOT apply to poverty!
ICP: our most important point

- Even GDP can be seriously misleading on its own terms
  - Quite apart from distributional, green, health, or happiness critiques
- Look at top 12 countries, ranked by GDP per capita
  - Next slide
Richest 12 countries by GDP per capita

- Luxembourg
- Qatar
- Singapore
- Ireland
- Bermuda
- Cayman Islands
- Switzerland
- United Arab Emirates
- Norway
- Brunei Darussalam
- United States
- Hong Kong SAR, China
What is going on here?

- It is not new, was similar in 2011 ICP
  - Macao is richest of them all, not included in 2011 ICP

- Consumption per capita (AIC) is much lower than GDP per capita
  - So GDP is a bad short-cut indicator of AIC
  - Even within the GDP family of material measures

- Most of these are either investment hubs
  - Stock of FDI is $\geq 1.5$ GDP
  - GDP is not the same as GNI

- Or resource-based countries
  - Resource rents $\geq -0.10$ GDP
Infamous Irish case

- Irish real GDP increased by 26 percent in 2015
  - PDI grew by 4.6 percent
  - GNI grew by 13.6 percent

- Small economies can get rich by cutting corporate tax rates and other taxes
  - They attract more capital than they lose in revenue
  - Works for them
  - Would not work for larger economies who would lose more than they gain

- Works for Ireland, not too small
  - These kinds of shifts are a serious problem for tax authorities in large countries
On lights from space

- Literature using satellite data to “check” national accounts
- Clearly, these numbers produce useful supplementary information
  - Especially in situations where data are weak or scarce
- But, they cannot do what is often claimed
  - Replace, or cross-check, national accounts data
  - Do lights reflect GDP, gross output, consumption, GNI?
    - Not clear, and is not discussed
Finally, on inequality

- Global, cross-country, inequality is much smaller with ICP than when computed at market exchange rates
  - This is true for Concepts 1, 2 and 3 inequality
    - At least when we are interested in living standards
  - No effect on within country inequality in the absence of RPPs

- Most people seem to understand this now
  - Though journalists sometimes make unwarranted comparisons