

Opinion **Global Economy**

Why the world's richest countries are not all rich

The latest international price comparison shows widening gap between material wellbeing and GDP

ANGUS DEATON



Trinity College Dublin. Although Ireland's GDP has grown at a rapid rate, the far lower increase in the per capita disposable income of Irish households is a better estimate of the change in living standards © AFP via Getty Images

Angus Deaton OCTOBER 5 2020



The writer is co-chair of the technical advisory group of the International Comparison Program. Paul Schreyer, OECD acting chief statistician and co-chair of the group, contributed

In March, just as the world was reeling from the onset of the pandemic, the International Comparison Programme completed its most [recent](#) computations. This dry-sounding statistical exercise collected prices in 176 countries, using them to calculate purchasing power parity exchange rates. The lack of media attention on the results is a reminder that measures of economic activity come second — unless they relate directly to threats to health.

Yet even in a time of plague, comparable international accounts are required for essential measurements, including cross-country comparisons of gross domestic product, living standards and global measures of [poverty](#) and inequality. And here the latest computations have important things to say.

The new accounts bring good news and not so good news. The good news is that the new 2017 data are *not* particularly newsworthy. For example, the economies of China and the US were of [similar size](#) in 2017, as they were in 2011. (The former is only two-thirds the size of the latter measured at current exchange rates.)

The not so good news is that globalisation and transfers of intellectual property have driven GDP even further from the common (mis) understanding that GDP measures people's material wellbeing, adding to its many [shortcomings](#) aired in recent years.

Good news first. The 2017 results are a recognisable update of the 2011 update, and not a radical remapping of the world's economic geography.

This is important because previous updates sometimes changed the relative size of countries and continents. The 2005 estimates, for example, made the world look much more unequal than previously believed; they also sharply increased some [measures of poverty](#).

These apparent increases were reversed in 2011, a reversal [maintained for 2017](#). This stability increases the statistics' credibility, helps their usefulness and will be especially important when, post Covid-19, the ICP moves to higher frequency measurement.

The not so good news comes from the list of the world's richest countries, as measured by per capita GDP: Luxembourg, Qatar, Singapore, Ireland, Bermuda, Cayman Islands, Switzerland, UAE, Norway, Brunei, the US and Hong Kong. Whatever this list tells us, it is hardly an exact list of countries where people enjoy the world's highest material living standards.

Ireland is a good example. Attracted by low corporation tax rates, several large multinationals relocated their intellectual property assets to Ireland, so that income generated from that property now contributes to Irish GDP. In 2015, such transfers caused Irish GDP to grow by [26 per cent in one year](#).

By contrast, per capita disposable income of Irish households grew at "only" 4.6 per cent in real terms. The latter is clearly a better estimate of the change in Irish living standards.

Why the discrepancy? Eleven of the 12 countries in the list are either investment hubs or resource-based countries. In both cases, consumption is a relatively low share of total GDP, often because profits account for a larger part of national income than wages and salaries.

Over time, profits will contribute to the income of at least some households and, in turn, their consumption. But at any given moment, GDP per capita includes amounts that are not part of people's current wellbeing, or their own income.

Furthermore, the income from foreign-owned capital is part of GDP, because it originates within the country, but not part of [gross national income](#), because it is not owned by nationals.

This is a reminder that, absent strong redistributive channels, rich resource-based economies are often internally unequal, because the ownership of resources — especially mineral resources — is confined to a few. That GDP tells us nothing about who gets what is another of GDP's most familiar criticisms. Nor does GDP speak to the sustainability of natural resources or the use of the environment. The problem is not the accounting, but the definition of GDP.

These arguments call not for the abolition of the GDP numbers, which are essential, but for a more intelligent use of the accounts and for measuring what it does not include.

Continuing [efforts](#) to integrate environment-economy accounts or to make GDP less oblivious to [distributional questions](#) need support. For policymakers, an exclusive focus on GDP per capita or its growth rate makes little sense. To put it bluntly, the top 12 list is not always where a country would want to be.

Letter in response to this article:

[*Comparing nations' living standards is hazardous / From Robert H Wade, Professor of Global Political Economy, London School of Economics, London WC2, UK*](#)

[Copyright](#) The Financial Times Limited 2023. All rights reserved.
