



**ASSESSING AND MEASURING
DEVELOPMENT:
DOES GDP STILL HAVE A SAY?**

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INTRODUCTION

- GDP; especially GDP per capita; used as key indicator for overall level of development,
- Growth of GDP and GDP per capita used as key indicator of progress on the development path,
- Critics: these indicators fell short from capturing key features of economic & social developments,
- Is the solution in social indicators? This is not what we exactly get from the Arab Awakening ...



OUTLINE

GDP and alike: What do they tell ...

What can GDP decomposition tell?

From the secondary distribution of GDP ...

... to equity, poverty and social indicators

Conclusion: an integrative approach



GDP AND ALIKE: WHAT DO THEY TELL ...

- GDP and GDP per capita: wealth generated in the domestic economy and available per person,
- GNI and GNI per capita: wealth generated by nationals (individuals and enterprises),
- GNDI and GNDI per capita: wealth generated by nationals plus net current transfers,
- Each of these indicators tells a different story both (i) in absolute and relative terms, and (ii) from a static and a dynamic perspective.



GDP AND ALIKE: WHAT DO THEY TELL ...

- A high GNI means that the country is a net exporter of income-generating capital (FDIs),
- A high GNDI means that the country is a net exporter of transfers-generating labor,
- Income available for the consumption of resident nationals is then higher than GDP per capita,
- BUT, is this sustainable economic development?
 - suboptimal use of domestic factors of production that are exported,
 - unsustainable consumption and demand.



GDP AND ALIKE: WHAT DO THEY TELL ...

- Think of the opposite:
 - A GDP (much) higher than GNI and GNDI, such as in Luxembourg means ...
 - ... highly efficient economic structure and economic management,
 - highly efficient use of domestic factors of production and attraction of foreign factors.
- Talking about national economic and social management implies looking at GDP and at the use of domestic factors of production,
- What about distribution, equity & development?



WHAT CAN GDP DECOMPOSITION TELL?

- Overall GDP level and growth tell a lot about the use of domestic factors of production and about the prerequisites of sustainable development,
- Sector decomposition of GDP growth is a key indicator of broadness,
- Primary distribution of wealth is a key indicator of inclusiveness:
 - How much of GDP goes to labor remuneration vs capital remuneration?
 - How much within capital remuneration is the part that goes to employment generating activities vs rent generating activities?



WHAT CAN GDP DECOMPOSITION TELL?

- Regional decomposition of GDP, enriched with demographic indicators, is an indicator of broadness and inclusiveness,
- Cross cuttings between sector decomposition, regional decomposition and primary distribution can provide a wealth of information on sustainable and broad-based inclusive growth,
- From there, choices of secondary distribution policies gain in accuracy and relevance.



FROM THE SECONDARY DISTRIBUTION OF GDP ...

- The Key question is: from whom and where we take to spend on whom and where and for what purpose?
- A major political economy issue that has to be addressed within the frame of a social contract:
 - Agreeing on major strategic developmental choices,
 - Specifying the role of the Government in reaching these objectives,
 - Defining the rights and duties of citizens and their interaction with the overall strategic objective and with the role of the Government,
 - Socio-economic management, fiscal spending and tax system are at the heart of the social contract.



FROM THE SECONDARY DISTRIBUTION OF GDP ...

- Strategic questions - Examples:
 - Is job creation an element of national cohesion?
 - Is promoting productive investment and developing productive capacity a national objective?
 - What are the basic universal services that should be provided to all citizens?
 - ... other ...
- Role of the Government: regulator, provider, or both? Social planner, economic planner, both, and to what extent?
- Citizens: what are the criteria of universality vs differentiation? What commands differentiation?



FROM THE SECONDARY DISTRIBUTION OF GDP ...

- Socio-economic management-Examples:
 - Should Industrial policies be oriented towards enhancement of productive capacity and job creation?
 - If so, what are the education and labor market policy that match industrial policy and promote employability?
 - Health policy, social protection, regional disparities
- Fiscal spending would then be prioritized according to strategic options and socio-economic management policy choices.



FROM THE SECONDARY DISTRIBUTION OF GDP ...

- The tax system would be designed in order to:
 - Address the imbalances observed under the decomposition analysis,
 - Mobilize resources to match spending needs.
- Which, in case job creation is the strategic objective, means:
 - Lower taxation of labor income,
 - Higher taxation of the less productive capital,
 - Tax advantages for sectors identified as strategic and / or that are lagging,
 - Same works for regions.



... TO EQUITY, POVERTY AND SOCIAL INDICATORS

- Concentration vs distribution – the Gini coefficient:
 - Would be interesting to have several levels of Gini coefficient,
 - A Gini coefficient at the primary distribution (primary income) level would inform on how much the economy is structurally equitable,
 - A Gini coefficient at the secondary distribution (income less taxes plus public transfers) level would inform on the progressivity of fiscal policies,
 - A Gini by region / sector may be envisaged.



... TO EQUITY, POVERTY AND SOCIAL INDICATORS

- Poverty Indicators:
 - Indicators of absolute and relative poverty help targeting distribution,
 - Targeted distribution ensure basic rights for a decent existence,
 - Targeted distribution should also empower poor to go beyond subsistence level,
 - Indeed, jobs and employment remain the main tool for fighting poverty.
- Social indicators – (health & education):
 - Must reflect effectiveness, i.e, to which extent the objectives are reached,
 - ... and efficiency, i.e, at which cost these objectives are reached.



CONCLUSION: AN INTEGRATIVE APPROACH

- National and domestic dimension, and management of domestic resources make the case for GDP,
- Employment and job creation are key for a sustainable, broad-based and inclusive growth and development,
- GDP growth and social indicators taken alone and sometimes together can be misleading:
 - Take good GDP growth and good education outcome together and ignore unemployment then you have a distorted assessment,
 - Not less distorted will be your assessment if you see low unemployment and ignore outmigration.



CONCLUSION: AN INTEGRATIVE APPROACH

- Integrative / complementary approach:
 - Social and developmental outcomes are endogenous to economic activity,
 - Economic management is at the same time social management and vice versa.
- Independent spheres / substitution approach :
 - Economic choices are independent from any social consideration,
 - Social issues are not addressed at the level of strategic choices and factor allocation,
 - Social issues are addressed through secondary redistribution at the level of service delivery.



CONCLUSION: AN INTEGRATIVE APPROACH

- The non-approach – Tea Party Style:
 - Poor are responsible for their status,
 - The good people can provide them with Charity if they want to earn a place in heaven.

THANK YOU

