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GDP and Globalization

The published real increase of the Irish GDP of 26.3 percent between the years 2014 and 2015 has raised serious questions about the interpretation and usefulness of the GDP concept and other national accounts aggregates resulting from the use of the 2008 SNA standard under increasing globalization. In a broader international context a central problem is how less spectacular looking GDP levels/growth rates are affected by the same phenomenon that have caused the high Irish GDP growth rate, thus raising the question if the GDP concept is now measuring something different from what most users take for granted and are familiar with.

In this paper it is pointed out that the increasing “randomness” of the GDP is largely not caused by the changes introduced with the 2008 SNA, but rather – and surprisingly, considering all the discourse during the revision to adjust the SNA to better reflect globalization – by the *lack of change* to the system in a fast changing world where the traditional measures may give results that do not sufficiently reflect the needs of economic decision makers.

There seems to be an outspoken policy demand for a GDP concept that measures the creation of value added in the geographical area of a country, and historically this has (in spite of the ownership principle being introduced already with the 1953 SNA) been the understanding among users (also analytical users and textbook authors) that this was what the GDP did (considering the “D”). We needed the Irish case to realize that this is no longer the case.

The increasing “randomness” will to some extent be eliminated from a GDP concept defined for the geographical area, as the effects of corporate inversion (movement of head-quarters of MNE to another economy) will be limited. However, as long as intangible property rights (use and assets) for which it is very difficult or impossible to establish their physical presence, are defined as *services*, the problem of large level shifts of GDP following corporate inversions remains.

In addition to the intangible property rights that have already been capitalized by the enterprises (not necessary in the SNA sense) and migrated to separate affiliates, often abroad, there are potentially gigantic amounts that have not yet been “monetarized” but with short notice can be so, making the national accounts figures reflecting tax minimizing policy of MNE rather than real economic developments, and significantly changing the economic picture of a country overnight. It seems that the only viable solution to this problem is to return to the pre-1993 SNA situation, where royalties and

licenses were considered property income (but an alternative new category of income may also be considered, and the definition of the royalty and license concept reconsidered)

Using Danish data for the period 2005-17 attempts are made to estimate the creation of value added abroad by Danish residents enterprises, and creation of value added in the geographical area of Denmark by non-resident enterprises, thus enabling a flexible GDP concept (somewhat in analogy to the domestic and national concepts of household consumption expenditures), and an alternative treatment of payments for IPP uses and assets will also be introduced.