Problems Interpreting National Accounts in a Globalised Economy – Ireland

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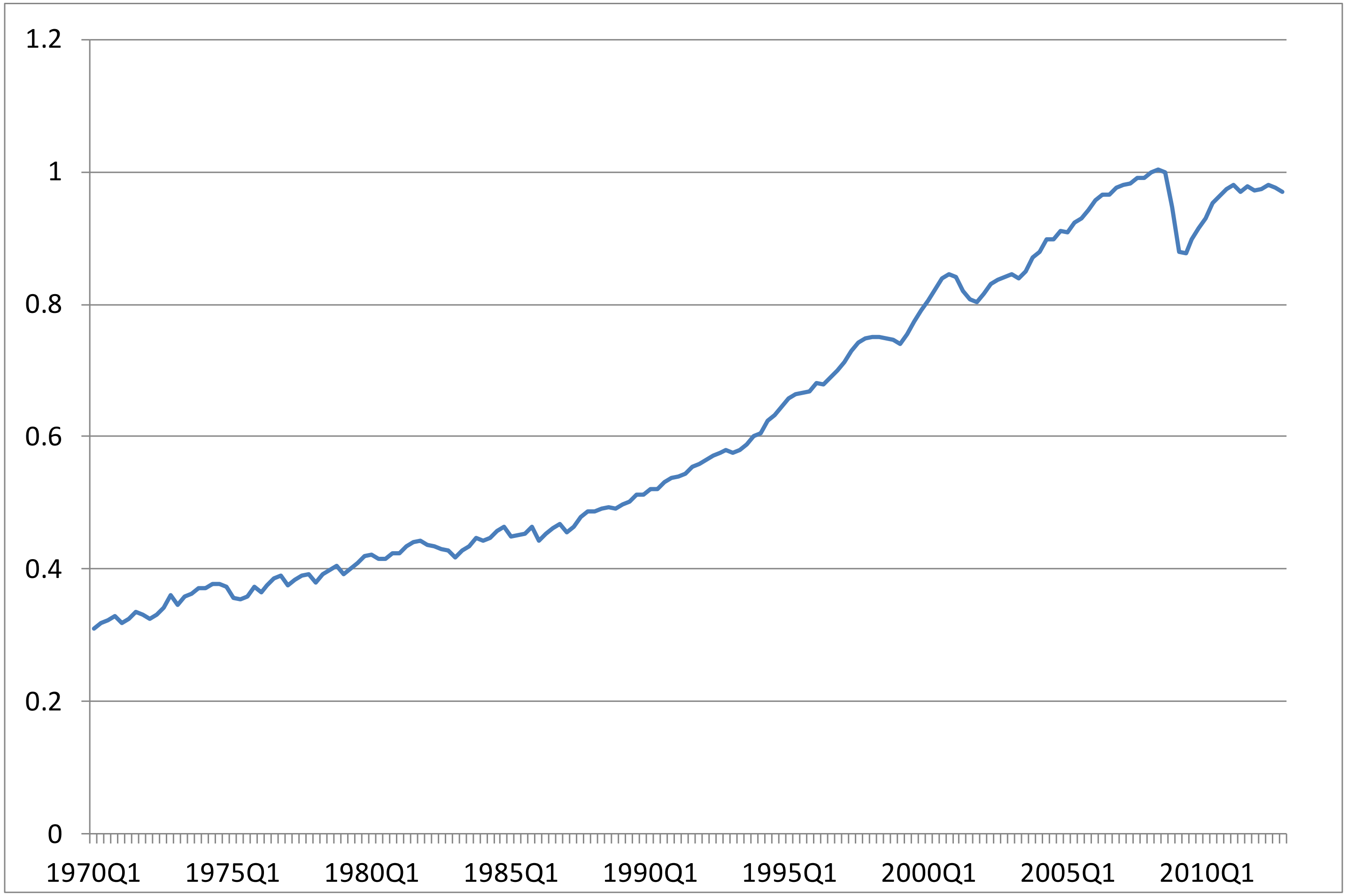
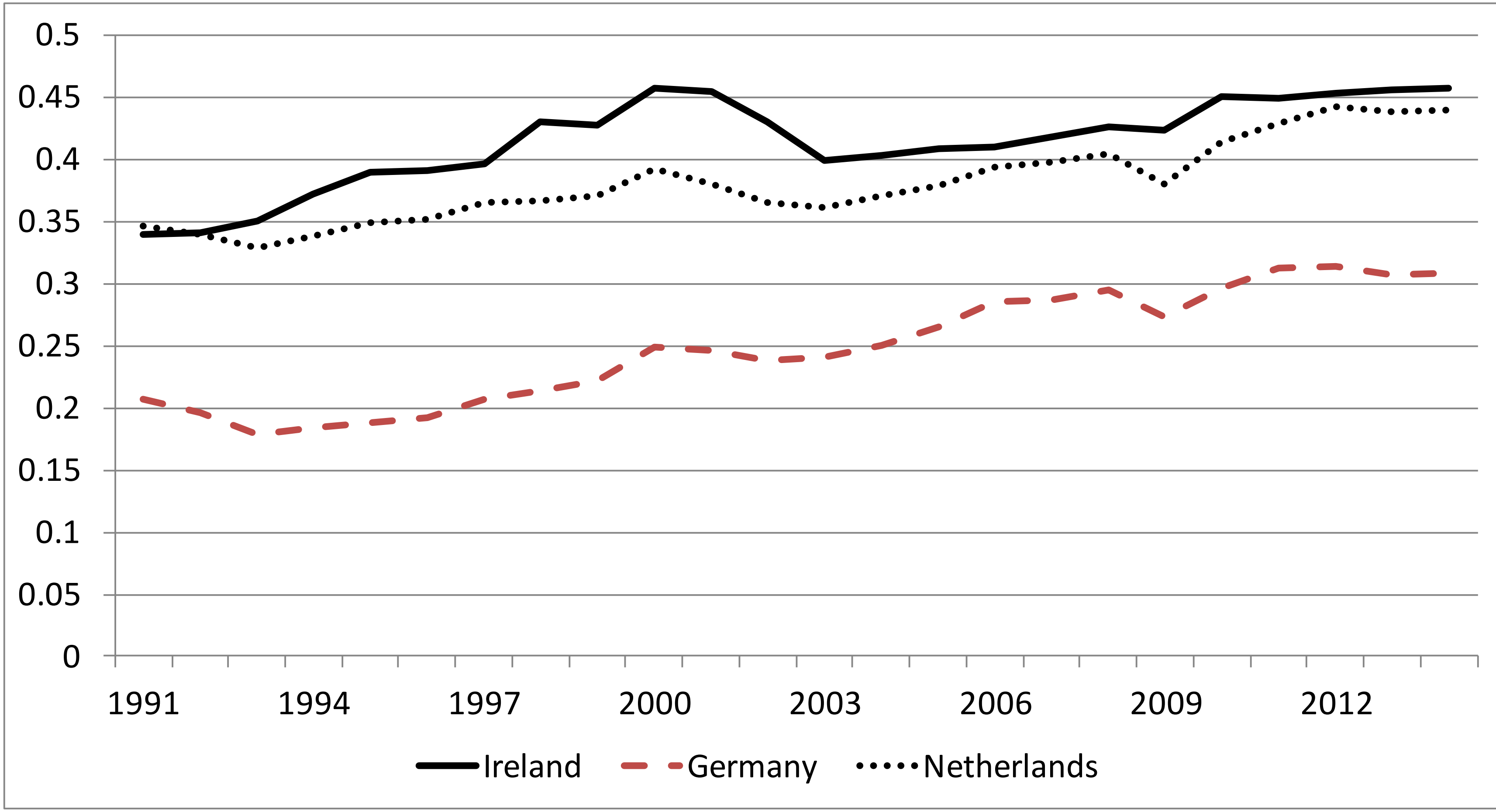
AIECE, Brussels, 7th November 2014

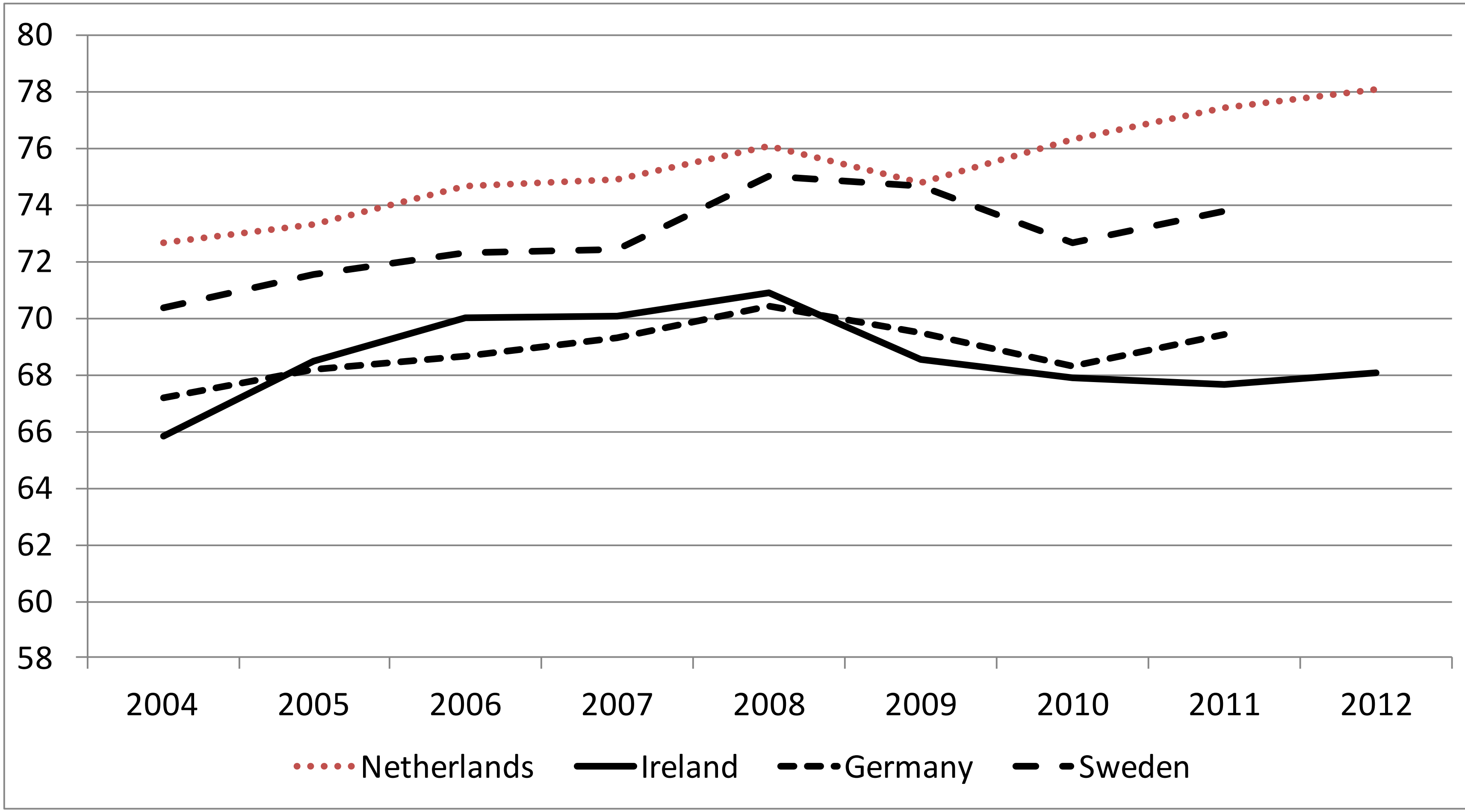
World Trade relative to World GDP



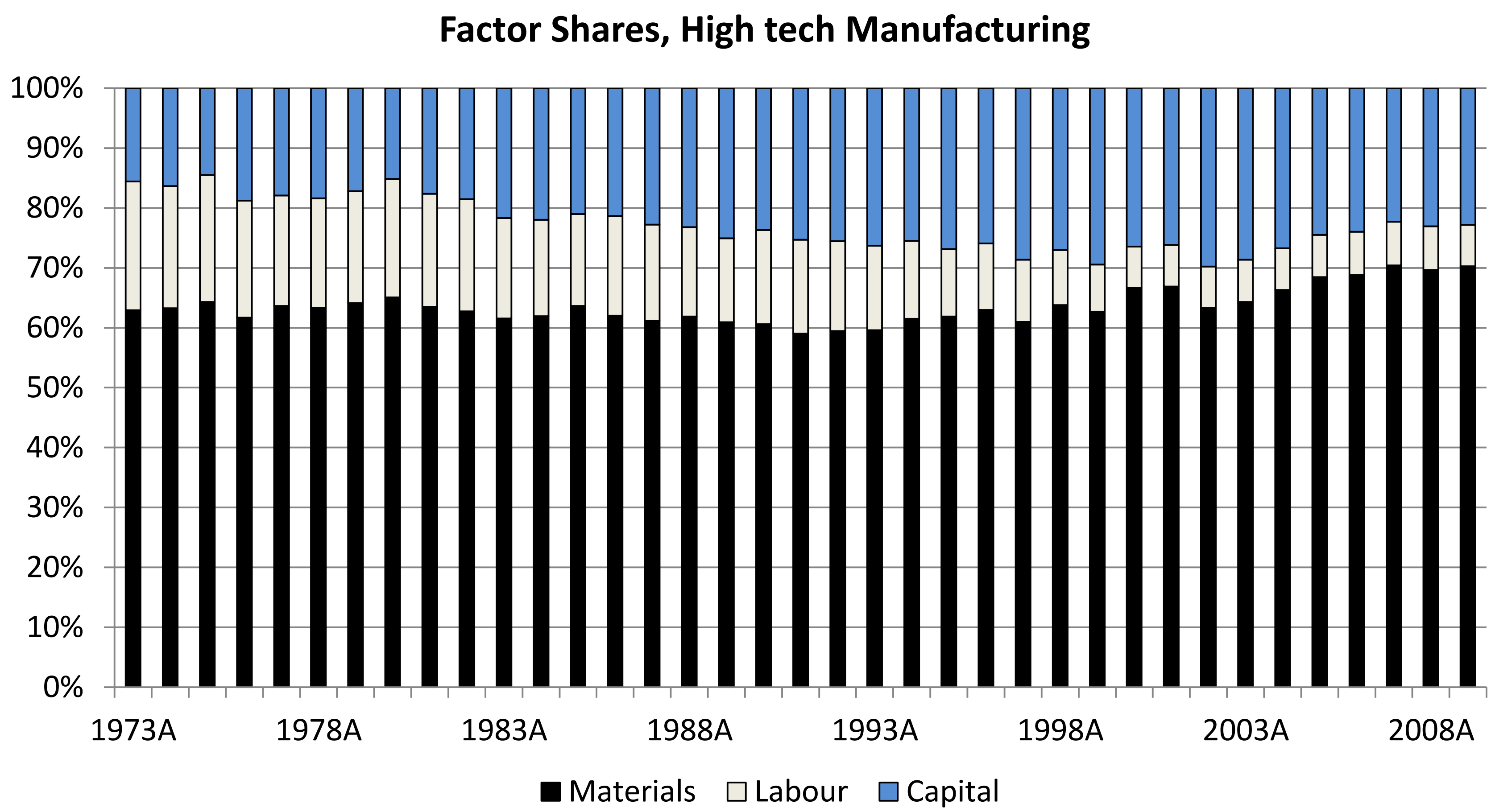
Imports Relative to Final Demand



Intermediate goods share of output



Factor Shares, Manufacturing, Ireland



Problems with Irish national accounts

- 5 problem areas in interpreting Irish accounts
  1. Patent Cliff
  2. IT Sector GVA
  3. Redomiciled Plcs
  4. “Exports” of goods produced abroad
  5. Aircraft leasing

“Patent Cliff”

- Pharmaceutical sector 11% of Irish GVA
- Drugs run out of patent in 2012
- E.g. Pfizer’s *Lipitor*: loss of $5.5 billion revenue
  - 2.5% of Irish GDP
- A volume change? Now a price change?
  - Revisions to information from firms
- Affects GDP but NOT GNP/GNI
  - Foreign owned – affects profits in Ireland
  - Profits accrue to foreign owners
- Previously looked like a big effect, now looks smaller

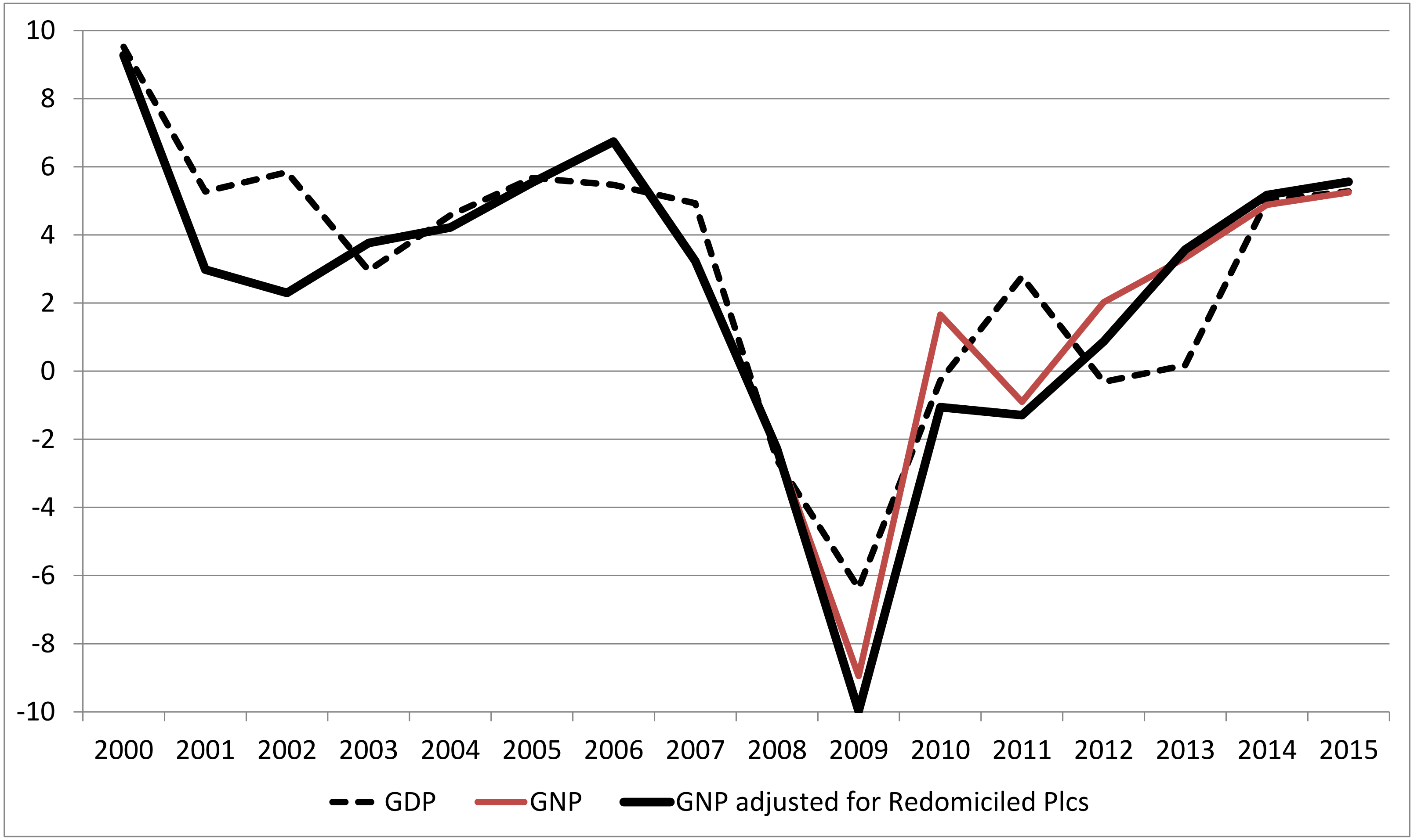
IT Sector

- IT sector (NACE 58-63) 10% of Irish GVA
  - Largely foreign owned
- Moving profits abroad by increasing payments for royalties and licenses in 2013.
  - Reduces GVA
- In 2013 volume of GVA in sector:
  - Fell by 57% or 2.3 percentage points of GDP
  - However, wage bill rose by 4%
- Effect on GNP/GNI small, maybe even positive

Redomiciled PLCs

- Headquartered in Ireland but no GVA
  - Liable for tax in UK etc.
  - Fraction of profits paid to owners abroad as dividends
  - Do NOT accrue the profits to owners, unlike manufacturing
  - Big effect on GNP/GNI but not GDP, 2008-12
  - Also on current account.
- Also an issue in the Netherlands accounts

Growth Rate, GDP & GNP adjusted



Treatment of goods produced abroad

- Pharmaceutical powder to be turned into tablets in Ireland
  - Owned abroad. Included gross in trade stats but not in national accounts. Little domestic GVA
- Goods produced and sold abroad for companies in Ireland (mainly foreign owned)
  - Included in national accounts exports
  - Adds to GVA (but not necessarily to GNP/GNI)
- Also affects US productivity

Aircraft Leasing

- Until now, treated net. Next year, treated gross
- Firms in Ireland own 19% of world aircraft
  - Stock of aircraft worth 70% of Irish GDP
- Will affect the current account
  - Imports of aircraft offset against investment
  - Leasing income – service export, 4.3% of GDP.
  - Leasing income currently excludes depreciation
  - Including depreciation will add to GDP (but not NDP)
- Limited domestic inputs: little impact on economy
  - However, will have very large gross flows so could be seriously misleading

Solutions?

- Need additional data – satellite accounts
  - Problem arises from residence basis & definition
  - GDP v GNP/GNI – difference important
  - What additional data would make things clearer?
- Concentrate on current account of BOP
  - Not gross flows of exports and imports
- Concentrate on output side
  - GNP/GNI by sector in which it arises
  - Need additional information
  - Separate foreign and domestic firms
- Redomiciled plcs – why not accrue?
- Other Problems, Other solutions?