Why some countries are wealthier than others?

Analysis variables 1 of 4

In this first section, we will analyse some of the **generic variables** per country.

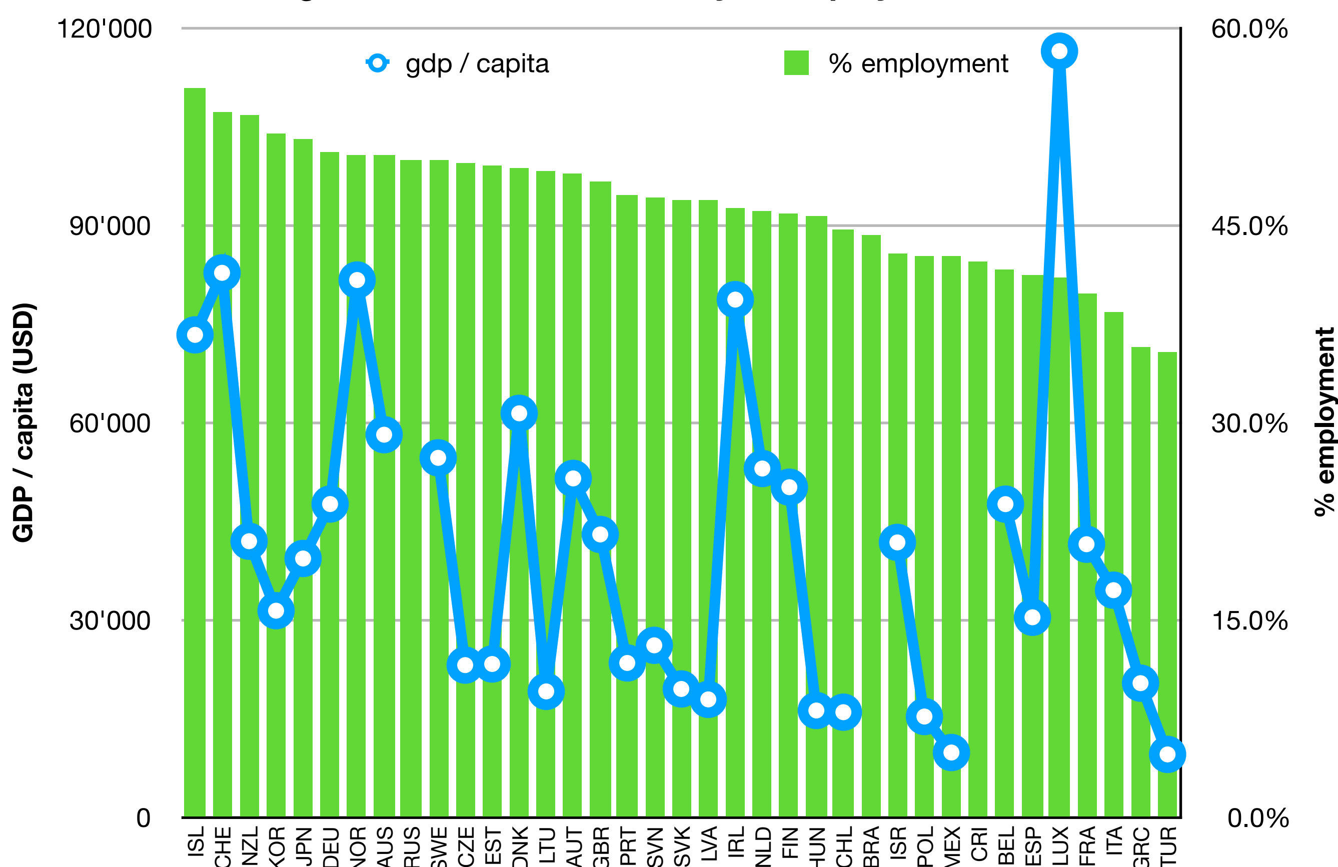
Variable #1 : % employment vs. GDP / capita

The % of employment indicates the percentage of the population actively working, and contributing to the GDP. It could be a good parameter to explain the level of wealth in a country; however, GDP also relates to the type of employment, sector and added value.

In countries like Island, Switzerland or Norway, a high % employment (>50%) is translated in a high GDP / capita; while in other countries like New Zealand, South Korea, Japan or Germany, a similar % employment relates to a much lower GDP / capita. In the other extreme, Ireland or Luxembourg combines low % employment (<45%) with very high GDP / capita.

In short, % contribution does not seem to be directly related to the GDP / capita, as it could be logically suggested (correlation 0.30 in 2018). The type of employment might be more relevant.

fig. 1.7 - Countries ordered by % employment in 2018



Data source: OECD data - https://data.oecd.org

Variable #2 : External commercial balance vs. GDP / capita

The external commercial balance (or the external balance of goods and services) is the exports of goods and services minus the imports of goods and services of a country. With this definition, a positive commercial balance indicates that value of exports is higher than value of imports.

Most of the countries with a high GDP / capita (i.e. Luxembourg, Ireland, Switzerland or Norway) have a positive external commercial balance. There is actually a correlation of 0.57 considering data for 2018. However, other countries (e.g. France, United Kingdom, Canada or US) have a high GDP / capita with a negative external commercial balance.

Therefore, the external balance does not strongly explain the GDP / capita in countries, although it seems to have a positive influence.

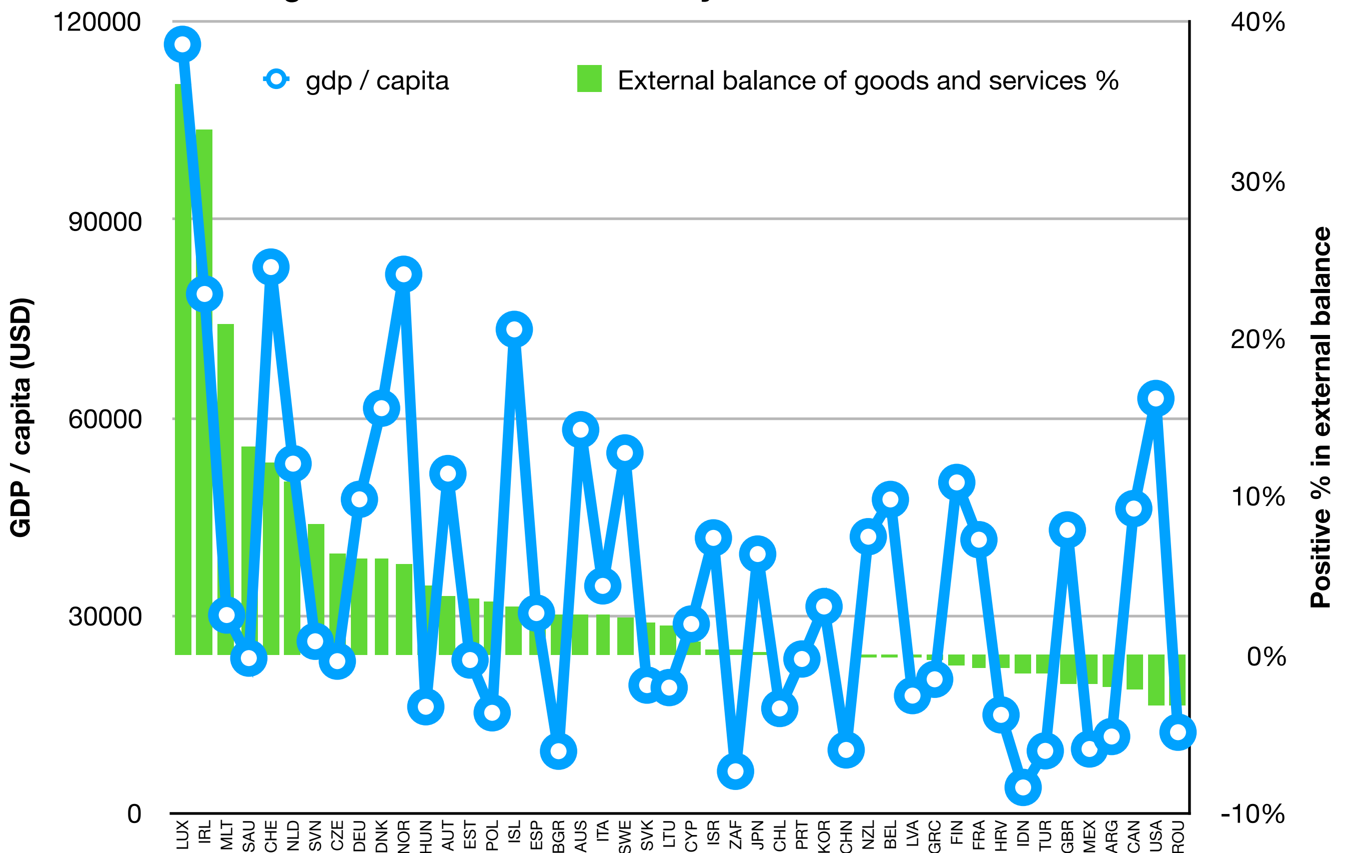


fig. 1.8 - Countries ordered by external balance in 2018

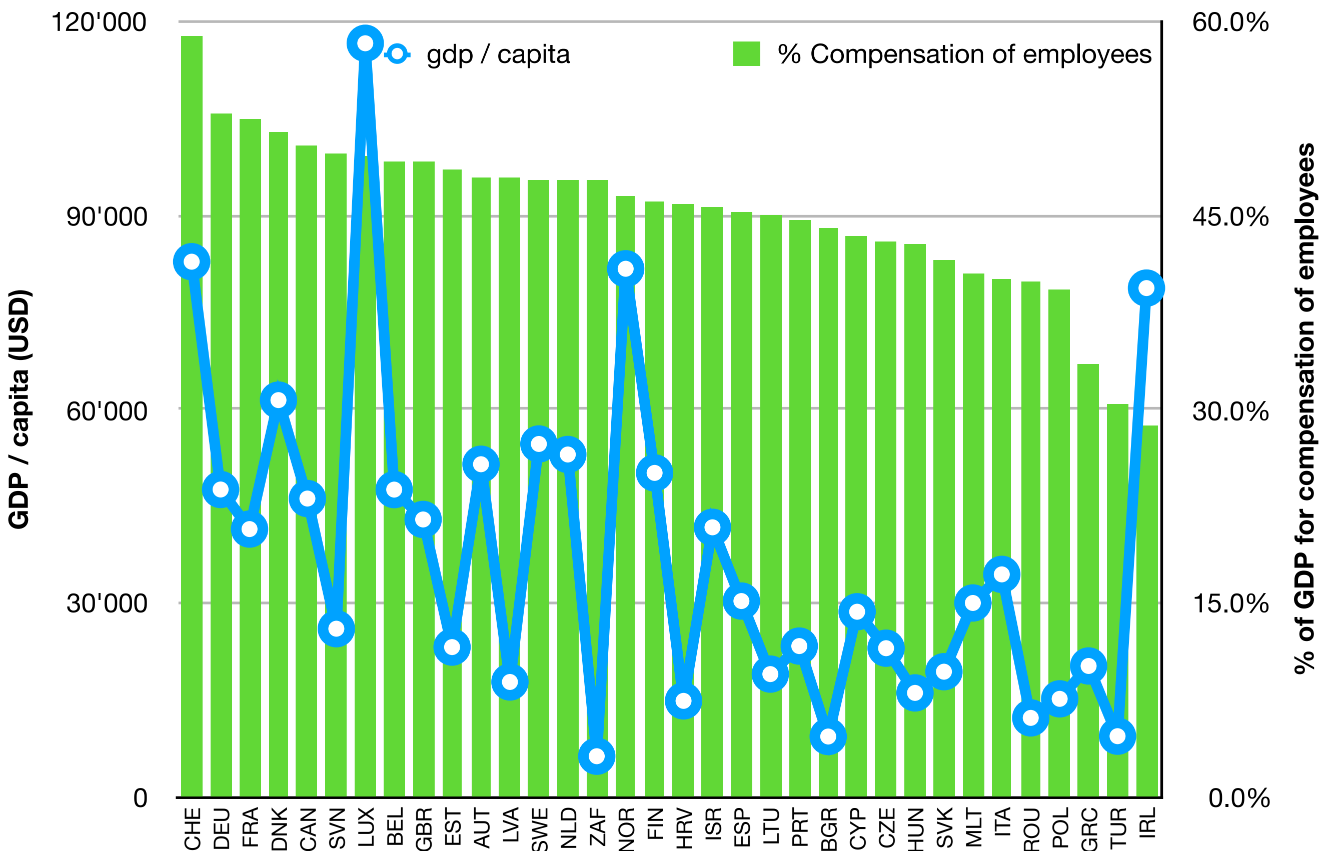
Variable #3 : % compensation of employees vs. GDP / capita

Basically, the GDP can be assigned to three big groups: (1) benefit for company owners or autonomous (assigned to a small population), (2) assigned to employees, in terms of salaries or other compensations (assigned to a bigger population), or (3) taxes for the governments.

The % compensation of employees indicate the percentage of the GDP which is reassigned to employees. In principle, a high % compensation of employees would distribute rates to a bigger population and potentially increase consume rates and, also potentially, lead to a higher GDP.

A high % compensation of employees goes together with a high GDP / capita for countries like Switzerland, Germany, France, Denmark and Canada, which lead the ranking and are also in the first places looking at GDP / capita. However, other countries like Luxembourg, South Africa, Norway or Ireland do not follow such rule. Being each country specific, we can see that Norway assigns a big percentage of the GDP to taxes, while Ireland assigns a big percentage to benefit of companies.

Again, % compensation of employees could be a variable explaining the level of GDP in a country, but this seems not to be a rule that can be applied in general (correlation 0.34 in 2018). Different economy models lead to higher or lower GDP anyway.



Data source: OECD data
- https://data.oecd.org

Variable #4 : % taxes vs. GDP / capita

The % of taxes indicates the percentage of the GDP collected by the governments in terms of taxes. A high percentage of taxes leads to a high influence of the public sector in the country's economy.

This parameter does not seem to have a direct effect in the GDP / capita (correlation -0.29 in 2018). It describes though different economic models with (a) low direct taxes, like Switzerland, or (b) high direct taxes, like Sweden. It does not explain the total of taxes, as indirect taxes are not considered.

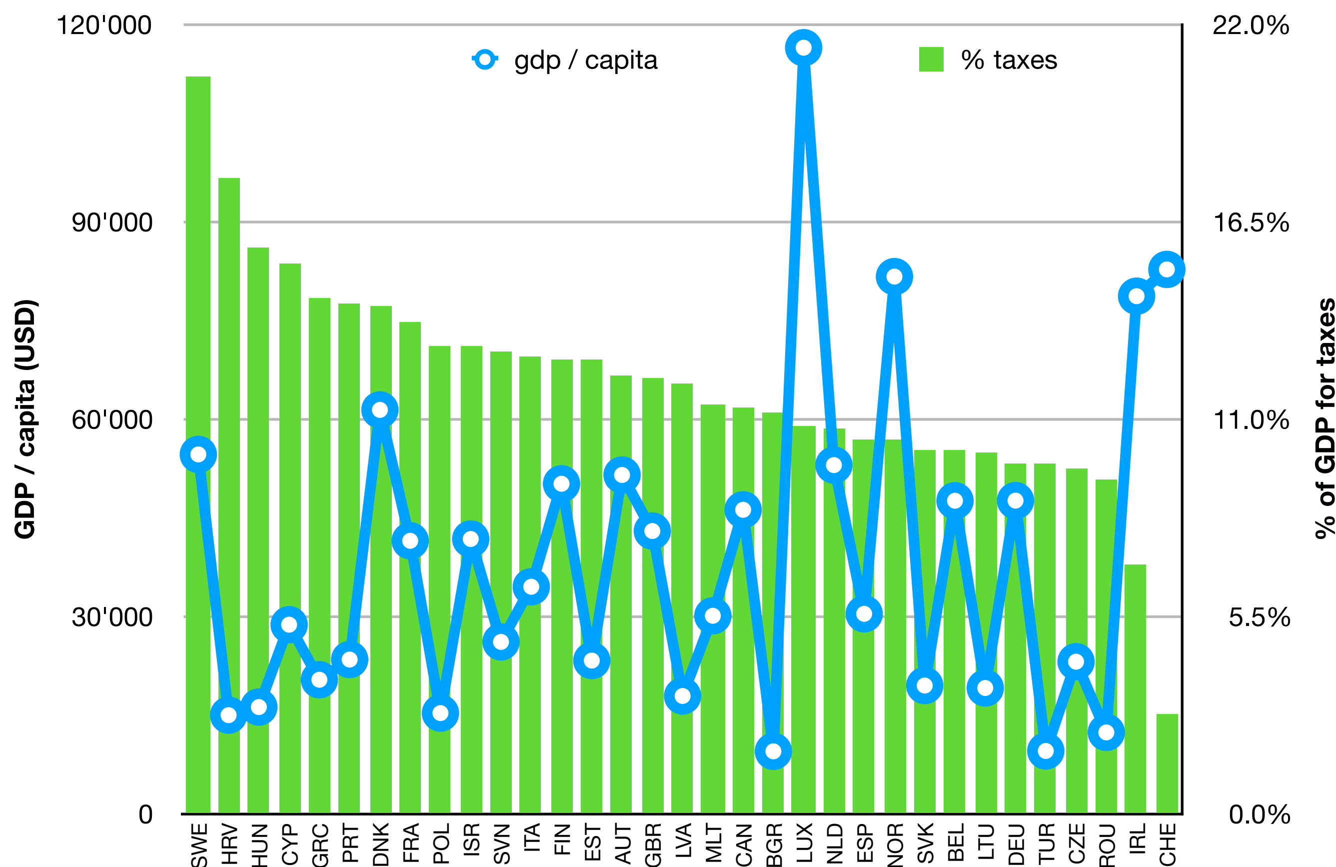


fig. 1.10 - Countries ordered by % taxes in 2018

Summary: The variables analysed do not seem to explain the wealth of a country, but they help to describe different economic models. As representatives of countries with highest GDP / capita:

- Switzerland: High % employment (54%), high % compensation of employees (59%), and low direct taxes (3%). Big percentage of population contributing to the GDP and also getting reassigned back, and paying public services when used, not as direct taxes.

- Norway: High % employment (51%), low % compensation of employees (46%), and medium direct taxes (10%). Big percentage of population contributing to the GDP, but bigger influence by the public sector by collecting more taxes and reassigning back lower proportion in terms of salaries.

- Ireland: Low % employment (46%), low % compensation of employees (29%), and also low % direct taxes (7%). Small percentage of the population contribute to the GDP and get reassigned back, while direct taxes are low. Suitable to generate big percentage of benefit to company owners.