Definition and measurement

Among the different measures available in the System of National Accounts (SNA), net national income (NNI) per capita is the best indicator for comparing economic well-being across countries. NNI is defined as gross domestic product (GDP) *plus* net receipts of wages, salaries and property income from abroad, *minus* the depreciation of fixed capital assets (dwellings, buildings, machinery, transport equipment and physical infrastructure) through wear and tear and obsolescence. Estimates of NNI per capita, however, are subject to greater uncertainties than those associated to GDP per capita, the most widely used indicator of national income (and the one included in previous editions of *Society at a Glance*), because of the practical difficulties in measuring international income flows and capital depreciation. Because of lack of data on capital depreciation, NNI estimates are not available for Hungary and Poland: based on values of their "gross" national income per capita (USD 14 000 and USD 11 000, respectively, in 2003), both countries would however appear to belong to the low half of the income range between USD 10 000 and 20 000 shown in Figure GE1.1.

To be compared across countries, measures of NNI in national currencies are converted into a common metric through the use of purchasing power parities (PPPs). These reflect the amount of a national currency that is required in each country to buy the same basket of goods and services as a US dollar does in the United States. These estimates of PPPs are computed (jointly by the OECD and Eurostat) by comparing the prices of about 2 500 items in different countries (Schreyer and Koechlin, 2002). NNI per capita is obtained by dividing NNI by the size of the resident population, which includes both people living in private households and those in institutions. Both NNI and PPPs estimates are affected by statistical errors: as a result, differences between countries of 5% or less are not significant.

On average, across the 28 OECD countries for which data are available, national income per capita reached a level of around USD 24 000 in 2004. In that year, three OECD countries had a per capita income in excess of USD 30 000 – Luxembourg, Norway and the United States – while six countries had a per capita income below USD 20 000 and two (Mexico and Turkey) below USD 10 000 (Figure GE1.1). On average, NNI per capita in OECD countries increased by around 15% since 2000, and by twice as much in Greece and the Slovak Republic. When assessed over a longer period, growth in NNI per capita in the OECD area has been accompanied by significant reductions in cross-country dispersion in the 1970s and 1980s, but this convergence stalled in the 1990s. Among major countries, France, Germany, Italy and Japan recorded a widening of their gap in NNI per capita relative to the United States since the early 1990s (to a range between 28% and 35%) while the United Kingdom recorded a significant narrowing (to less than 20%).

OECD countries with higher average income tend to spend more on social protection (public and private mandatory expenditure). This relation, which was documented in the 2005 issue of *Society at a Glance* with respect to GDP per capita, also holds for NNI per capita. The relation is very tight in the case of health spending but also holds, to a lesser extent, for non-health expenditures. There are a number of explanations for this pattern. Much social expenditure is "income replacement" – benefit payments to those without work or who are elderly: as a country gets richer, so do benefit payments. Other social expenditures are, in effect, buying the services of others – medical or childcare, for example: as the earnings of such service providers increase alongside those of other workers, social expenditure rises (Arjona *et al.,* 2001).

Because of these reasons, growth in national income does not reduce the demand for social expenditure. Indeed, as incomes go up, people may devote an increasing share of it to buy social services (*i.e.* the income-elasticity of social expenditures may be greater than one). Data for OECD countries confirm this pattern: the share of national income devoted to social expenditure rises as per capita income goes up, although with much variation across countries. This applies both to health care and to the non-health social spending (Figure GE1.2). Denmark and Sweden, spend significantly more on social expenditure than might be expected given their income per capita; conversely, Mexico, Korea and, to a lesser extent, the United States spend significantly less.

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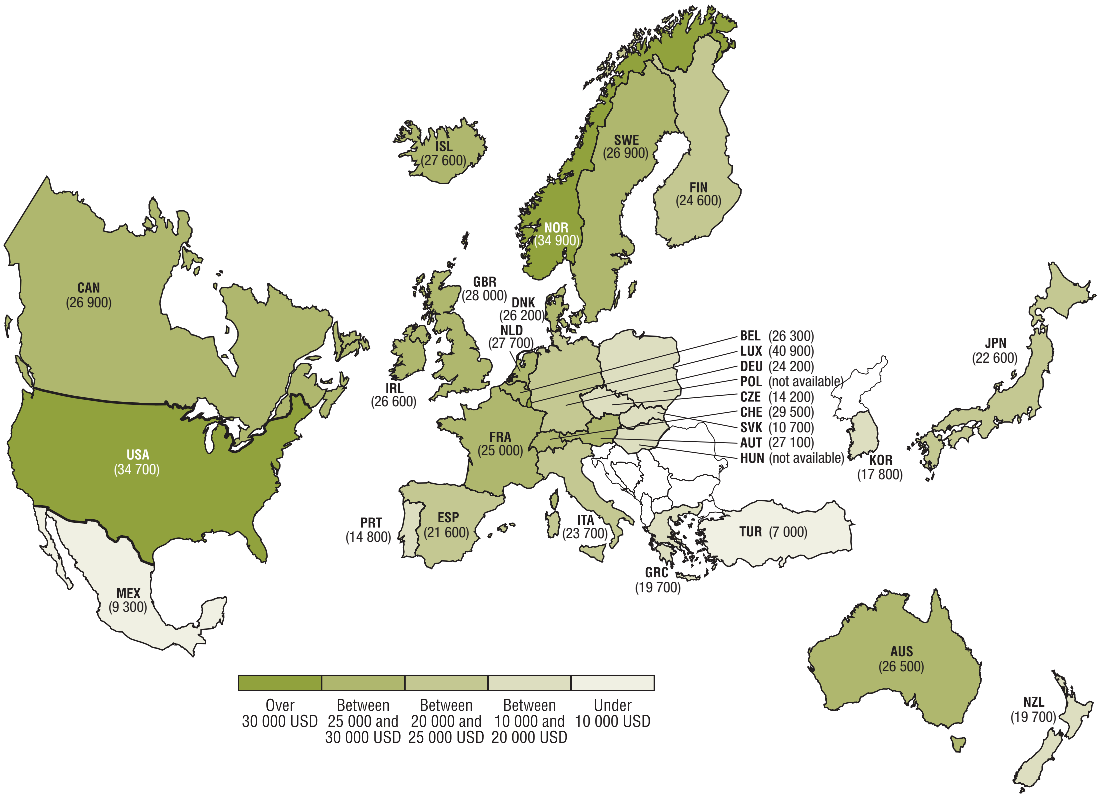
GE1.1. **Net national income per capita of OECD countries varies between 7 000 and 40 000 USD**

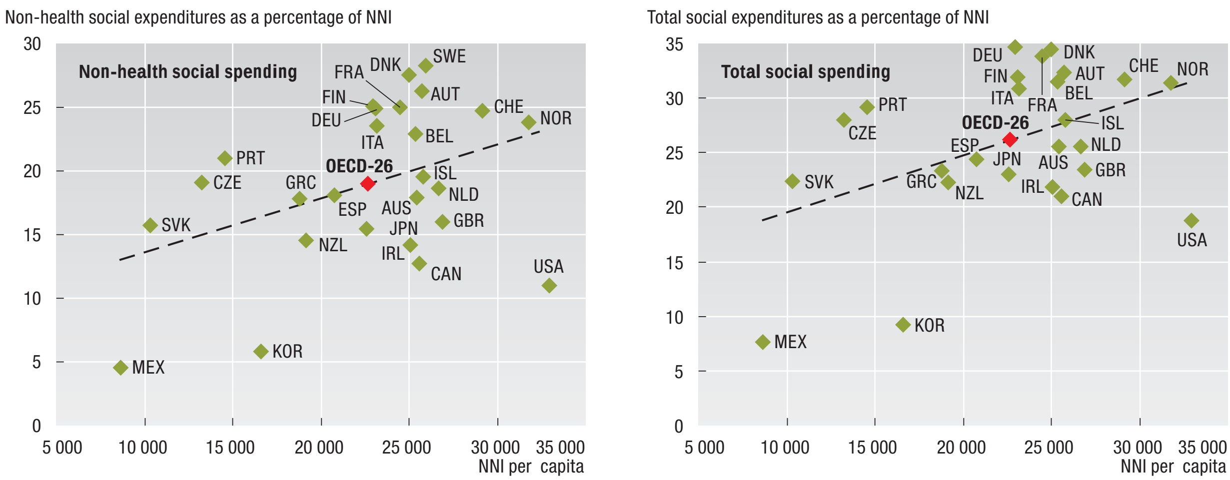
NNI in USD at current prices and current PPPs in 2004



Source: OECD annual national accounts.

GE1.2. **As income per capita rises, OECD countries spend more of their national income for social purposes**

NNI per capita and shares of national income devoted to non-health and total social spending, 2003

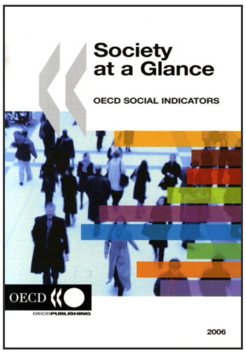


Note: Total social expenditure includes public and mandatory private expenditure. Data are preliminary.

Source: OECD annual national accounts and Social Expenditure Database.

StatLink: *http://dx.doi.org/10.1787/785615632641*

Further reading ■ Arjona, R., M. Ladaique and M. Pearson (2001), "Growth, Inequality and Social Protection", OECD Labour Market and Social Policy Occasional Paper, No. 51, Paris. ■ OECD (2006), *National Accounts of OECD Countries: Main Aggregates, Volume I*, 1993-2004 (2nd version), Paris. ■ Schreyer P. and F. Koechlin (2002), "Purchasing Power Parities – Measurement and Uses", *OECD Statistics Brief*, No. 3, March, Paris.



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