# Principles of Business : course n°3

## Group Presentation : Three pillars analysis

BA 2nd Year - 20/01/2020

# Question on previous courses

What is economy ? How would you define it ?

Which book was written by Adam SMITH ? When ? What was his major findings ?

What were David RICARDO major findings ?  Can you explain them ?

What is Washington consensus ?

What do you remember from Piketty's Capital in the twenty-first century ?

# Three pillars analysis

3 Pillars analysis is used to study a given country economy or to make comparison between countries.
It is used by national or international authorities to make design development policies or by corporation to make international investment decisions.

Traditionaly, this analysis was based on « hard data » like GDP, personal income and unemployment rate.

Now a analysis include Social and Environmental aspects together with Economic aspects.

# Traditional metrics : GDP

What is GDP ?

How do you calculate it ?

# Traditional metrics : GDP

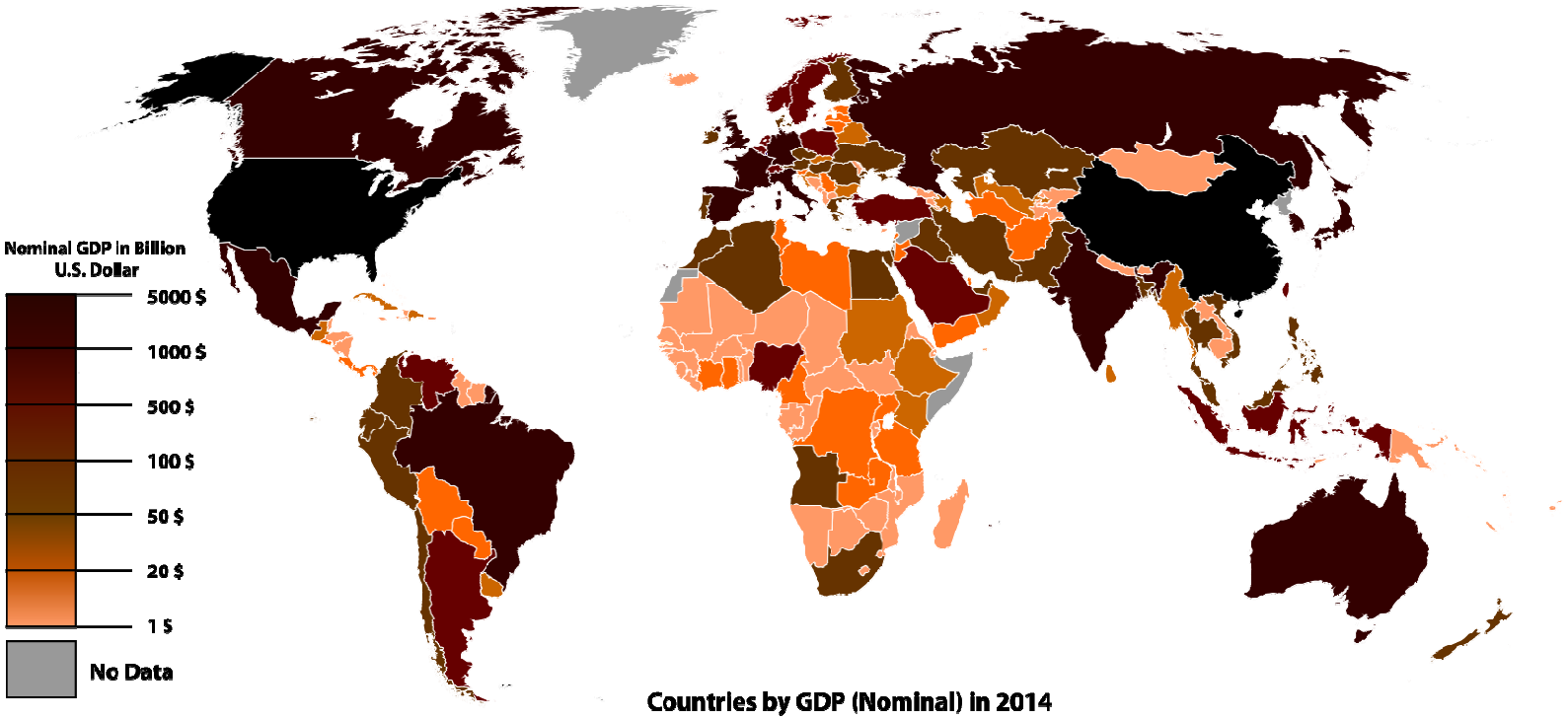
There is several ways to compute GDP !

**Production approach** (OECD and French way) : add all production measured by added value + goverment spendings

**Income approach** (US way) : add all incomes : salaries, corporate profits, investment incomes + goverment spendings

**Expenditure approach** : GDP (Y) is the sum of consumption (C), investment (I), government spending (G) and net exports (X – M). $Y = C + I + G + (X – M)$

# Traditional metrics : GDP




Source : GDP (Official Exchange Rate)" (PDF). World Bank. Retrieved August 24, 2015.
Current values : https://databank.worldbank.org/data/download/GDP.pdf

# Traditional metrics : GDP

Advantage of GDP : allows quick international comparisons

Shortfall of GDP : nominal value in currency differs from use value ; change in exchange rate have a great effect when comparing national GDPs converted in USD.

# Traditional metrics : GDP growth

Growth has became a true obsession since WW2. No regards political opinion, liberal pro market or USSR communist, everybody wanted growth.

At least in France when have ceased since a long time to communicate on nominal value (ex GDP is 2000 G€) we care only on the variation (ex : we did +2 % last year).

In France there is a concensus on that « we need growth to reduce unemployment ».

This view can be criticized : when does it stop ? Are they material (environmental) limits to the growth ?

# Traditional metrics : Population

There is an obvious relation between the size of country population and the economic importance of a given country, as seen in the previous map.

Population is not a static data. For example, population in USA has been growing much faster than in Europe.

Origin of growth matters : immigration vs high birth rate.

Other example : population growth in the US and in the USSR during the cold war. One child policy in China. Population growth in Africa and Middle East is an important matter for those countries and Europe.

# Traditional metrics : GDP per capita

GDP per capita is simply dividing the total GDP of a given country by the population.

It allows even quicker international comparisons.

Can be distored when huge international corporations choose to have their headquarter in a small country for taxe « optimisation » (supposedly legal but not even in most case) purpose.

Example : Apple Inc. in Ireland. As a result Ireland GDP looks huge : 80k$/ inhab. compared to 35 in France. Not sure the avarage irish man is 2 time richer than a frenchman.

# Traditional metrics : inflation

Inflation is the general increase in prices. Statistical national organization measure the evolution of a the total price of a representative basket of goods.

Inflation is something your generation doesn't know but was still a big thing during the 90'. I remember that the price of « Picsou Magazine » was rising 5 % every year.

Inflation was at 10 % / year during the 80'.

Why such low inflation now ? Can be related to liberal policies or globalization that lead to more competition and a downward pressure on prices.

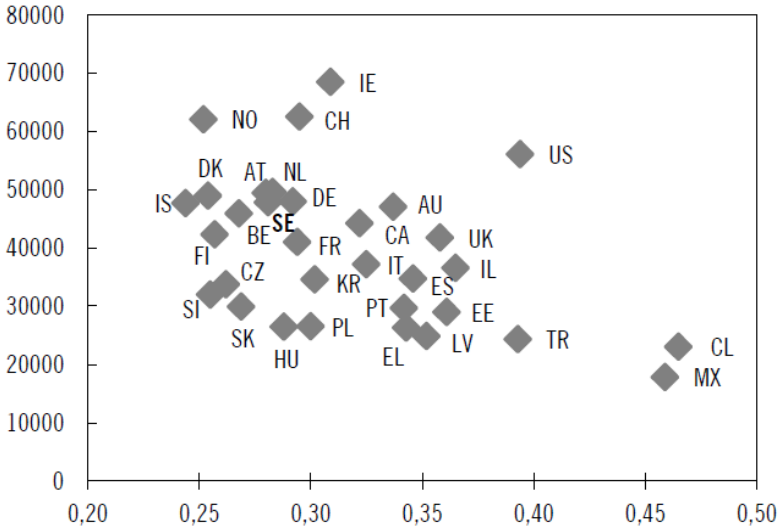
# Traditional metrics : Gini coefficient

Gini coefficient measure inequalities : A coefficient of 0 expresses maximal economic equality (where everyone has the same income). A coefficient of 1 expresses maximal inequality (only one person has all the income).

They may be a correlation between inequalities and development ?

**Figure 1.1 GDP per capita and Gini coefficient**

*Purchasing power parity (PPP) based GDP per capita in 2015, USD*




*Gini coefficient 2013 or subsequently*

Note: AT=Austria, AU=Australia, BE=Belgium, CA=Canada, CH=Switzerland, CL=Chile, CZ=Czech Republic, DE=Germany, DK=Denmark, EE=Estonia, ES=Spain, FI=Finland, FR=France, UK=United Kingdom, EL=Greece, HU=Hungary, IE=Ireland, IL=Israel, IS=Iceland, IT=Italy, KR=South Korea, LV=Latvia, MX=Mexico, NL=Netherlands, NO=Norway, PL=Poland, PT=Portugal, SE=Sweden, SI=Slovenia, SK=Slovakia, TR=Turkey, US=United States. PPP-based GDP per capita for Luxembourg was USD 102 131 in 2015, a significant outlier from the other countries in the sample. Accordingly, Luxembourg has been omitted from the figure to improve readability. The Gini coefficient can have a value between 0 and 1. A coefficient of 0 expresses maximal economic equality (where everyone has the same income). A coefficient of 1 expresses maximal inequality (only one person has all the income).
Source: OECD.

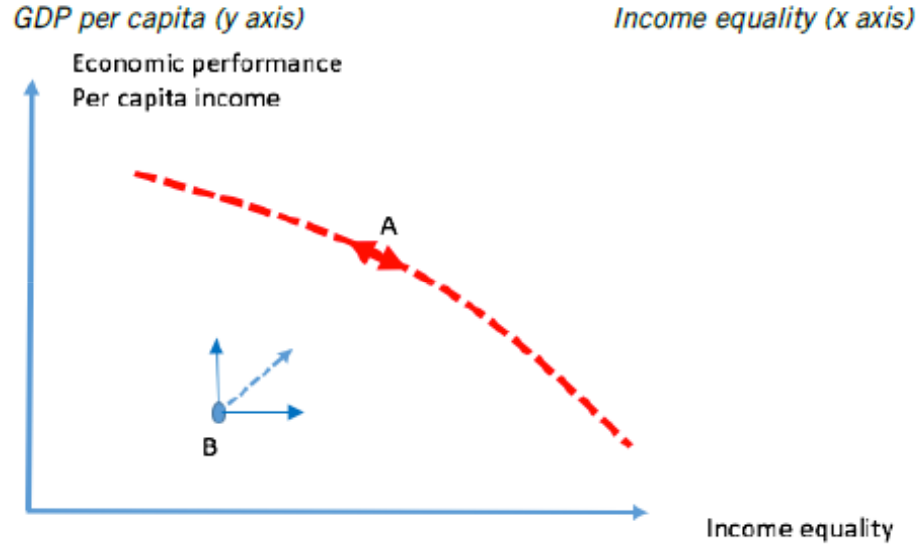


# Traditional metrics : Gini coefficient, example

Source : « The Swedish Model » ; Government of Sweden ; 20 June 2017

# Traditional metrics : Gini coefficient, example

**Figure 3.1 Schematic illustration of the trade-off between economic performance and income equality**




Source: Andersen and Maibom, The trade-off between efficiency and equity, http://voxeu.org/article/trade-between-efficiency-and-equity [accessed 2017-01-10].

Source : « The Swedish Model » ; Government of Sweden ; 20 June 2017

# New metrics : still 3 pillars but a new goal

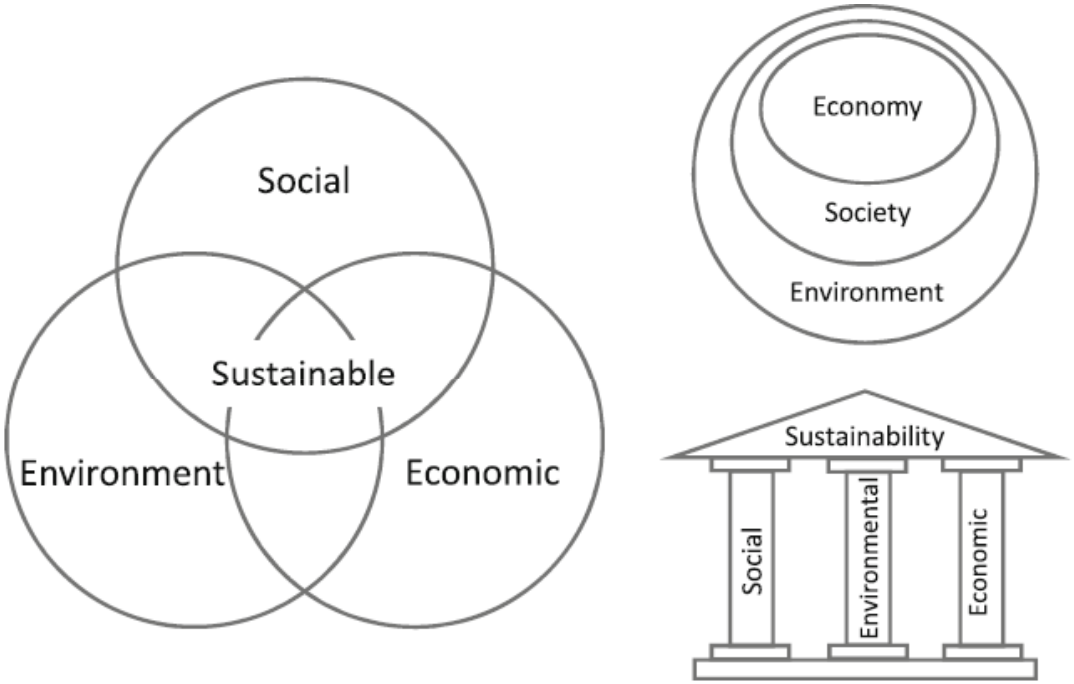



**Fig. 1** Left, typical representation of sustainability as three intersecting circles. Right, alternative depictions: literal 'pillars' and a concentric circles approach

Current country analysis lies on 3 pillars including Environment and Social aspects together with Economy.

Source : Three pillars of sustainability: in search of conceptual origins

Ben Purvis, , Yong Mao , , Darren Robinson
Received: 1 December 2017 / Accepted: 23 August 2018

Sustainability Science
https://doi.org/10.1007/s11625-018-0627-

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# New metrics : still 3 pillars

This new view out of only material metrics is refreshing. But, today sustainable development concept is still to prove to be more than words.