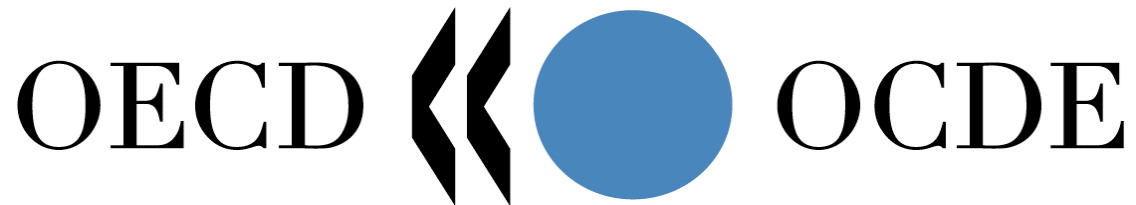


Colloque: Vers de nouveaux indicateurs de richesse

Organisé par la Chambre des employés privés et l'Observatoire de la compétitivité du ministère de l'Économie et du Commerce extérieur



# Measuring the Progress of Societies: some alternative measures of wellbeing

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# Overview

- Why do we need alternative measures of wellbeing?
- A global project on measuring the progress of societies
- OECD work on alternative measures
- Conclusions



# Why do we need alternative measures?

- Because of the limitations of GDP as a measure of progress
- Because of the ways in which GDP has been equated with progress
- Because alternative measures can improve the nexus between statistics and policy making

## Improving the Nexus - Indirectly

- Indirect Improvement: using measures of progress to lift the level of societal debate
- “Are our public institutions guiding progress in a reasonable way?”
- “How are we best to prioritise and choose amongst competing needs and interests?”
- “Are we achieving worthwhile goals as a society?”
- “How will this knowledge affect my choices, as an individual or institution?”
- “What choices do we need to make in order to ensure that the future is a bright one for the next generations?”



## Improving the Nexus - Directly

- Direct Improvement: providing policy makers with the tools they need to make evidence – based decisions
- ...and arming the public with the tools to hold the policy makers accountable

# Why A Global Project on Measuring the Progress of Societies - inspiration

- Information is not knowledge (A.Einstein)
- Today we are bombarded by information (J.C. Trichet)
- An investment in knowledge pays the best interest (B. Franklin)
- By adopting key indicator systems, we will be able to generate quality information that can help individuals, institutions and nations accelerate progress and make better choices (D. Walker)
- International organisations, like the OECD, have to create global networks to allow communities to discuss, share knowledge and identify best practices (D. Johnston)

# Why A Global Project on Measuring the Progress of Societies – key facts

- Many developed countries have launched initiatives to develop key indicators to assess overall progress, considering economic, social and environmental dimensions
- In several countries public policies are designed and monitored using quantitative targets
- Several international organisations have developed sets of “key indicators” to analyse countries’ performances
- Although people have a huge amount of information available to make their decisions, surveys demonstrate that ideology is used as a shortcut to decision-making (Blinder-Krueger)



## The OECD work:

- National accounts
- Sustainable development
- Social indicators
- Environmental indicators
- World Forum on “Statistics, Knowledge and Policy”
- Going for Growth
- Factbook





## 2005 OECD Working Paper:

- Economic perspective: Is GDP per capita an adequate measure of well-being?
- Social perspective: what light do social indicators bring to an assessment of living conditions?
- Statistical perspective: how can indicators and/or national accounts help in measuring well-being?

**Extremely relevant for policy purposes**



# Different approaches

- National accounts
- Objective indicators (including composite indicators)
- Subjective measures



# 1 - National accounts perspective

- Different measures of economic resources:
  - GDP
  - NDP
  - GNP
  - NNP
  - NNI
  - Disposable income
  - Consumption
  - Etc.
- Two possibilities:
  - Measures for the economy as a whole
  - Measures for the household sector

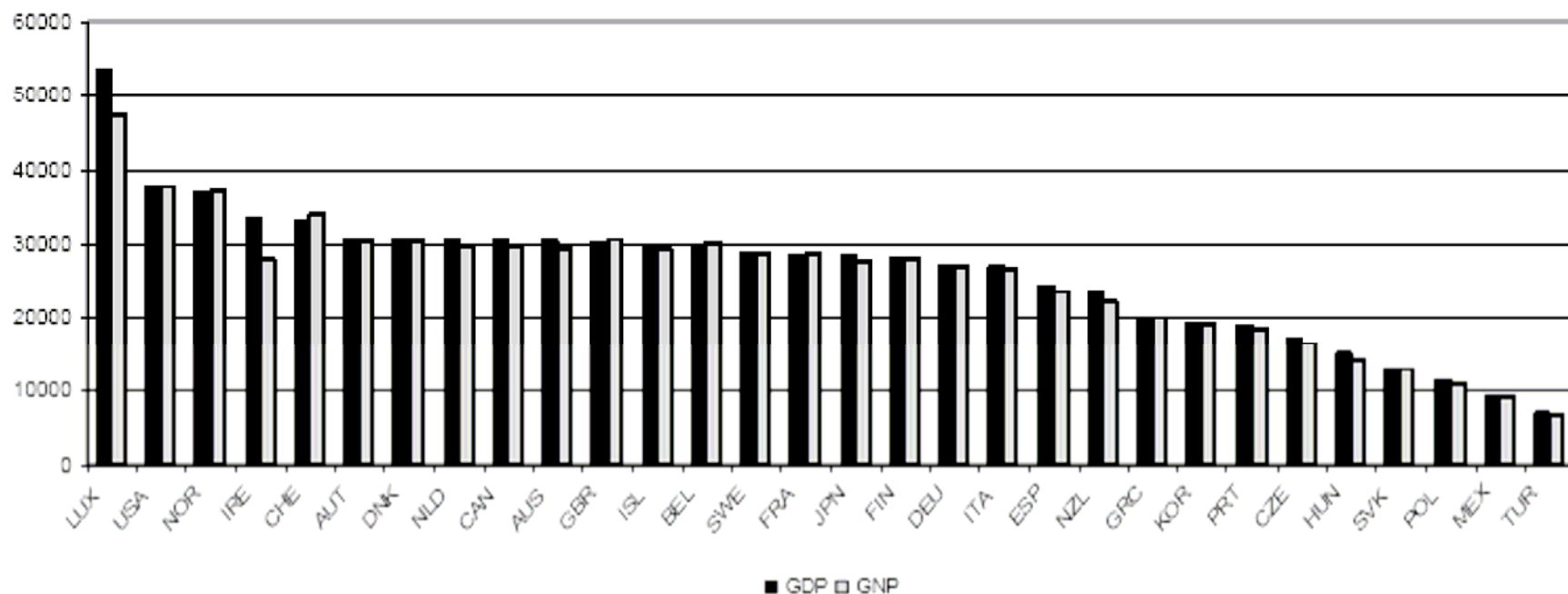


# 1.1 – NA economy-wide measures

- Adjustments to GDP
  - Relations with the rest of the world
    - Net income transfers from abroad (GNI at current prices)
    - Terms of trade effects (to measure changes in GNI at fixed prices)
- Effects for consumption of fixed capital
  - Measures for the economy as a whole
  - Measures for the household sector

- Levels of NNI are lower than GDP per capita
- Rankings based on NNI are similar to GDP

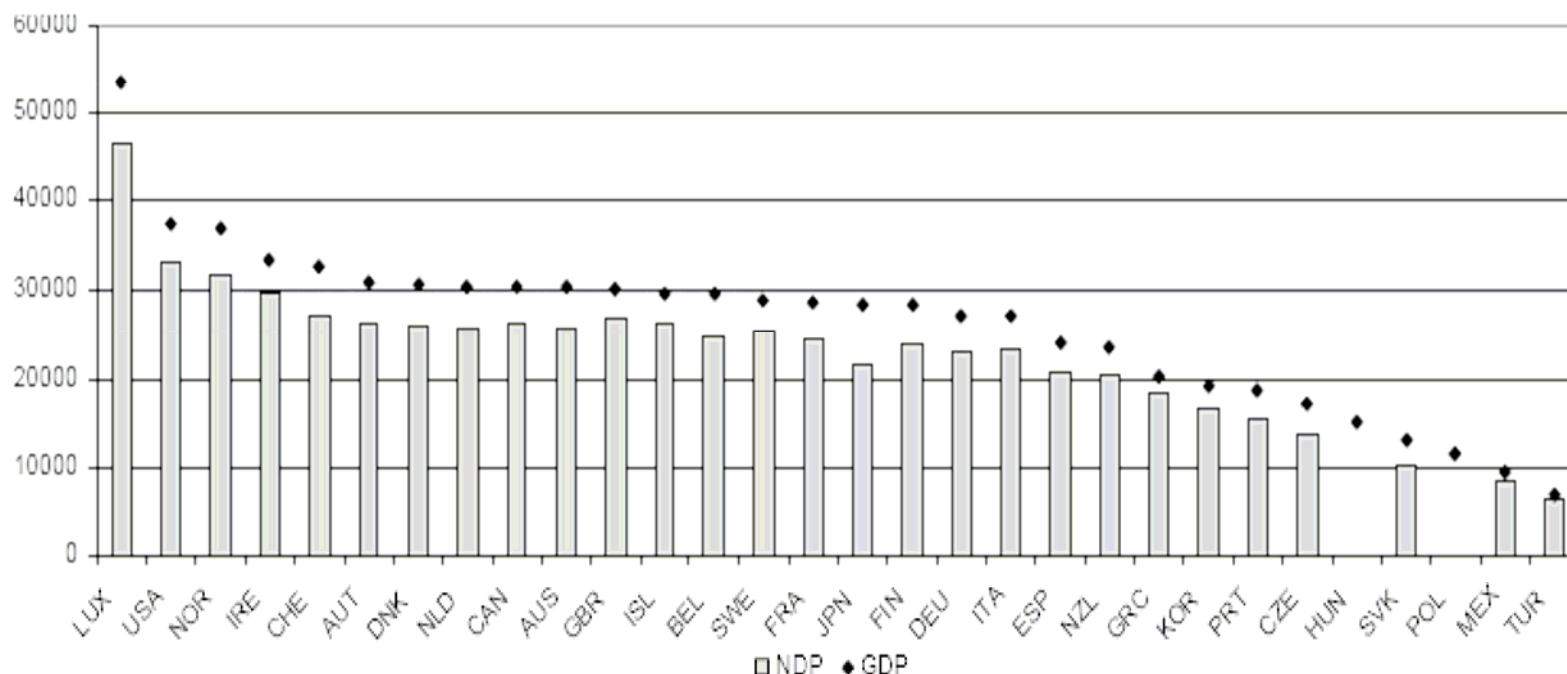
Figure 1. GDP and GNI per capita 2003, US\$ current prices and current PPPs



Source: OECD Annual National Accounts.

- Levels of NDP are lower than GDP per capita
- Rankings based on NDP are similar to GDP

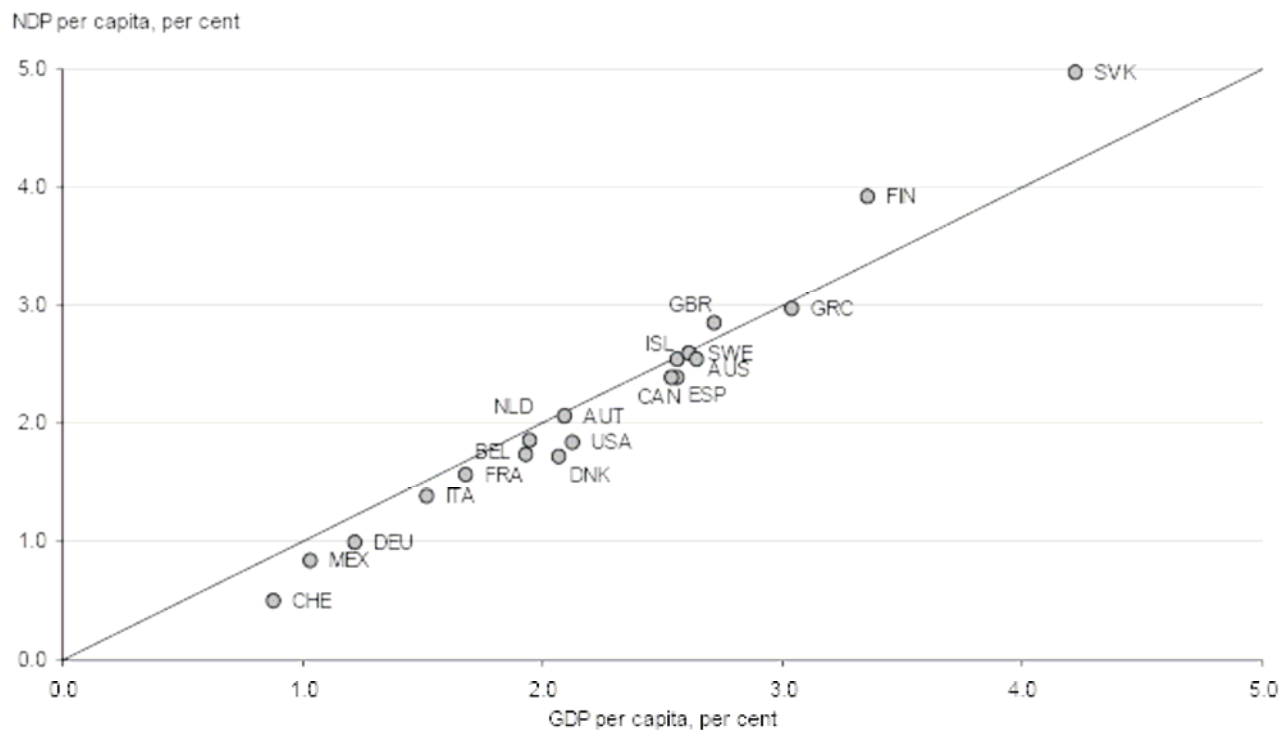
Figure 3. GDP and NDP per capita, 2003, US\$ current prices and current PPPs



Source: OECD Annual National Accounts.

## - Several measurement issues (capital and depreciation)

Figure 4. Average annual growth in real GDP and real NDP per capita, 1994-2003

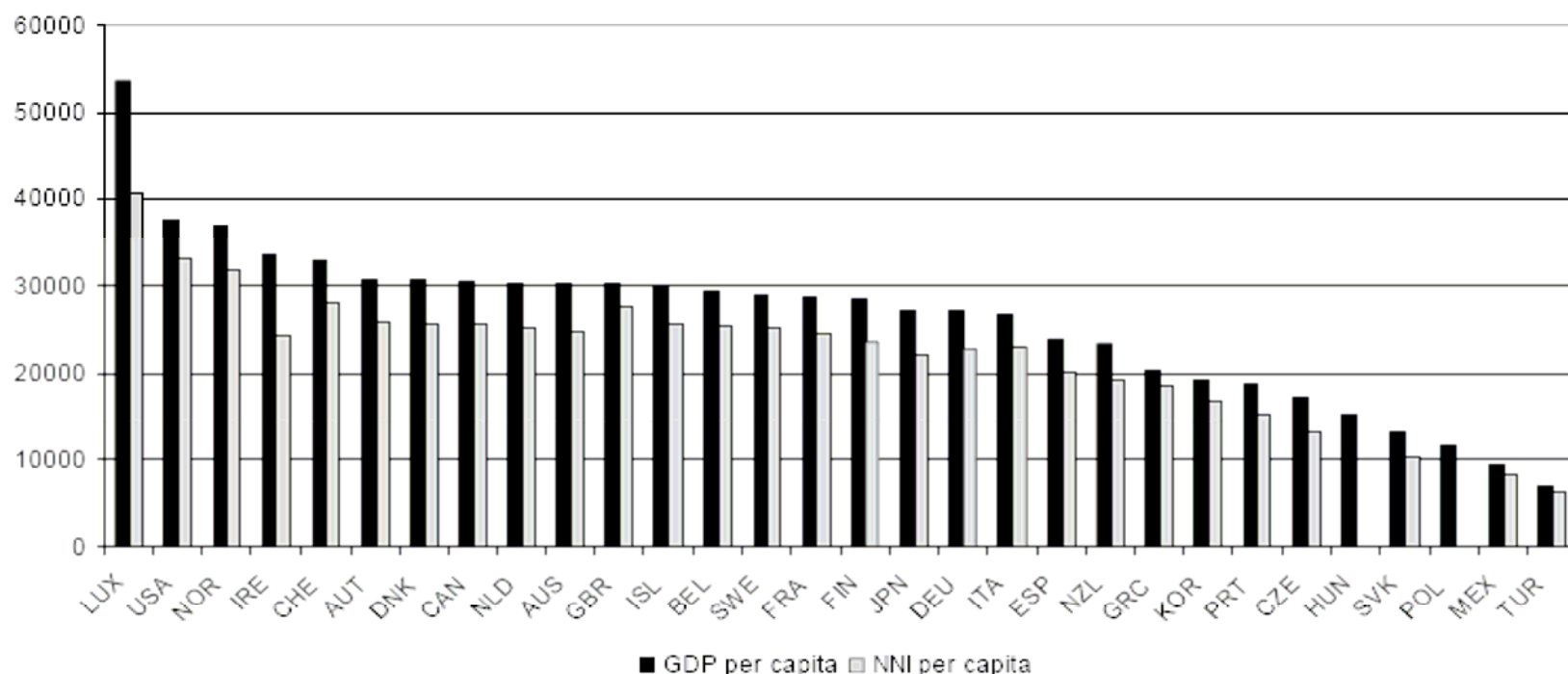


Source: OECD Annual National Accounts.

- Levels of NNI are lower than GDP per capita
- Rankings based on NNI are similar to GDP
- Gaps increase marginally when comparing US and others

Figure 5. GDP and NNI per capita, in US\$ current prices and PPPs, 2003

Ranked in descending order by GDP per capita



Source: OECD Annual National Accounts.



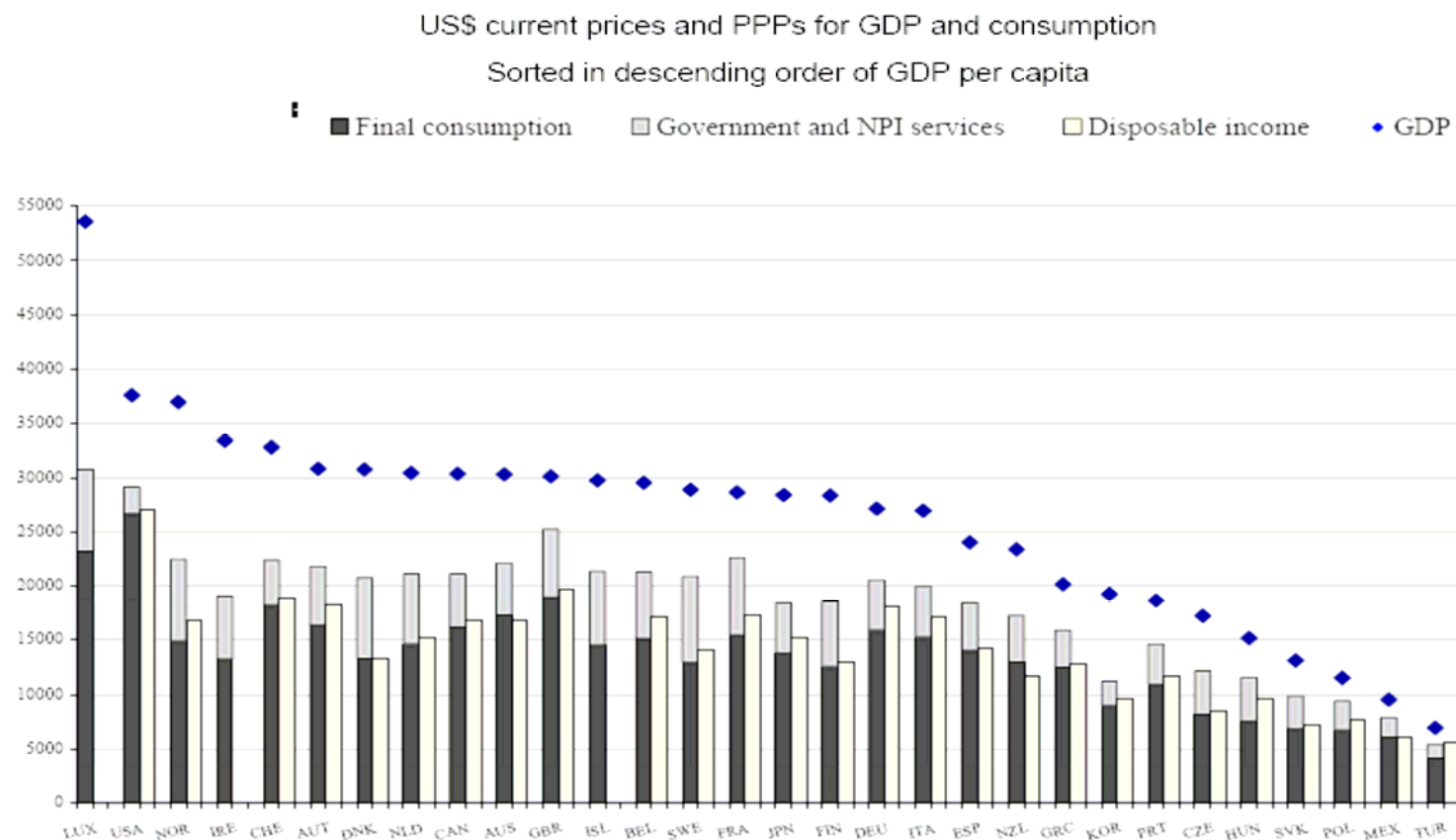


## 1.2 – Measures for the household sector

- Three national-accounts based measures of consumption
  - Household disposable income
  - Household final consumption expenditure
  - Household “actual” consumption expenditure

- Levels of the three measures lower than GDP
- Strong correlation between levels of household income/consumption and GDP per capita

Figure 7. Consumption, actual consumption and GDP per capita, 2003

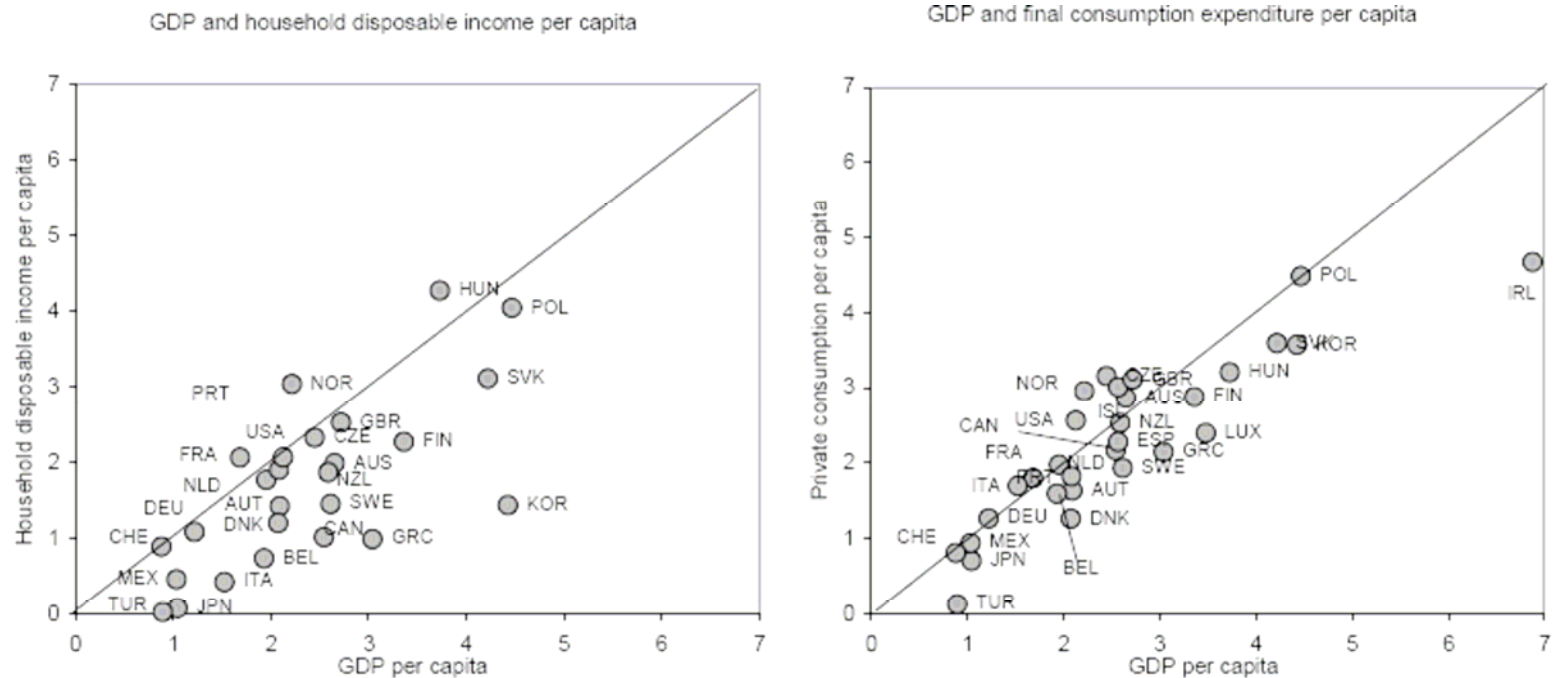


Source: OECD Annual National Accounts and OECD *Economic Outlook* No. 76.

## - Starker differences when looking at growth rates

Figure 8. Real household's disposable income, real final consumption expenditure and real GDP per capita, annual average growth rate 1994-2003

Per cent



Source: OECD Annual National Accounts and Economic Outlook No. 76.




## Summing up

- Economy wide measures in national accounts are closely related to each other
- There are larger differences between household and economy-wide measures (GDP per capita)



## 2 – Non economic factors

- Integration of additional items into “enlarged” (money based) measures of well-being
- Social indicators (non-monetary)

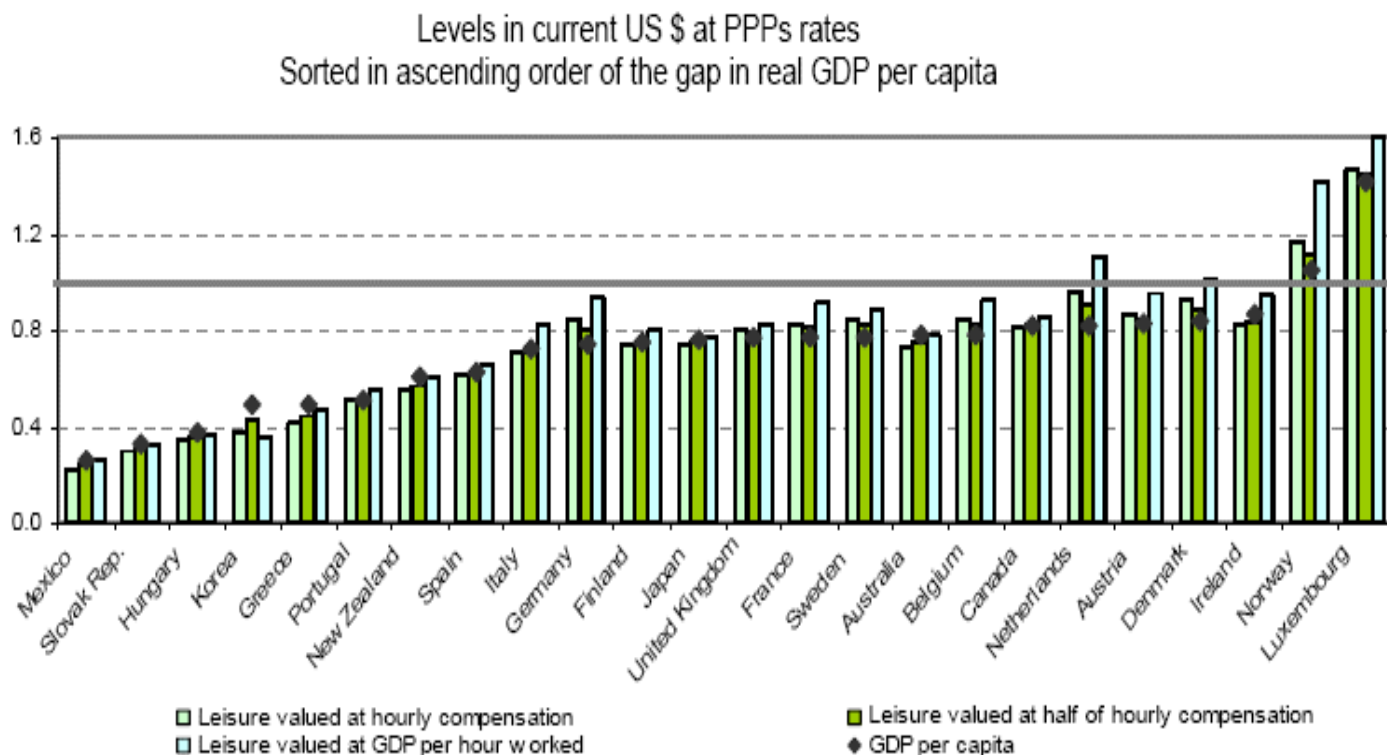


## 2.1 – Integration of additional items into monetary measures of well-being through “monetary equivalents”

- Which additional factors?
  - Leisure-time of workers
  - Living arrangements
  - Income distribution
- Limits
  - Illustrative calculations only (arbitrary assumptions)
  - No attempt to see whether the effects of these factors cumulate or cancel out when combined

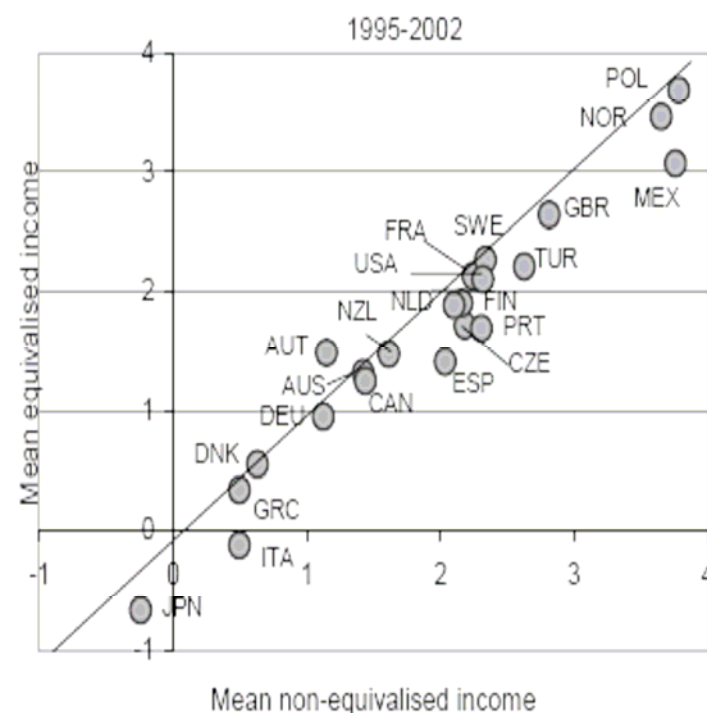
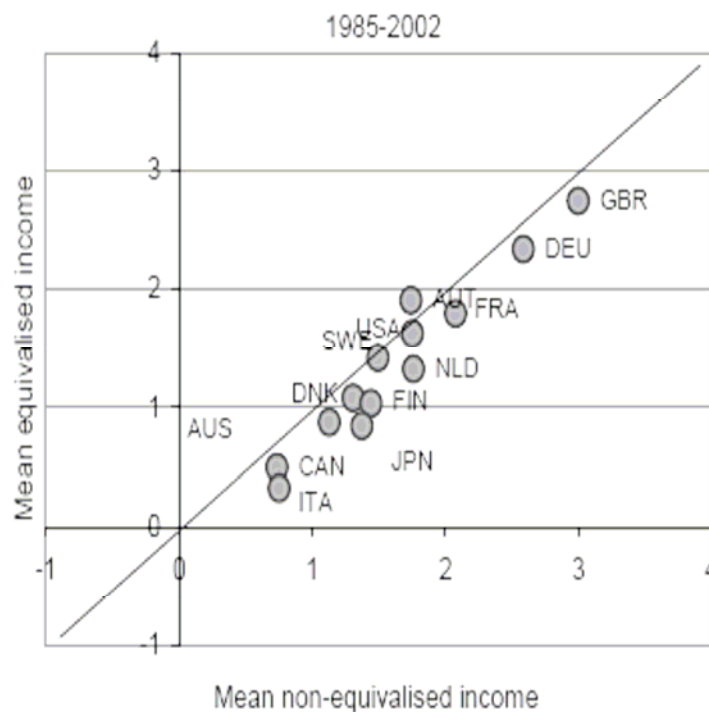
## Leisure time of workers: smaller gaps relative to the US after evaluating leisure-time in some Continental European countries

Figure 10. Levels of GDP per capita with different adjustments for leisure time of workers relative to the United States in 2001



## Changes in living arrangements: some significant reductions in growth of household disposable income in some countries

Figure 11. Real annual change of per capita household disposable income and adjustments for changes in household size, selected OECD countries



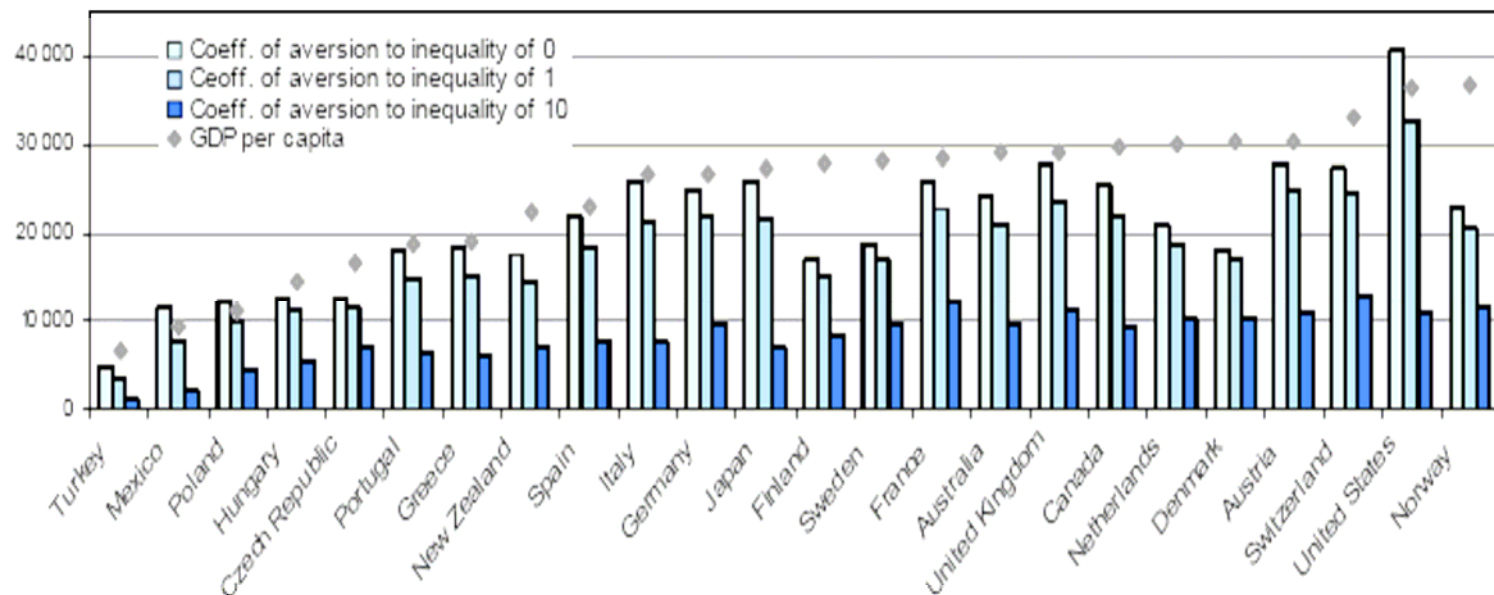


## Impact of inequality: significant on levels of households disposable income, smaller in terms of rankings

Figure 12. Levels of “equally-distributed” household disposable income for different values of the coefficient of aversion to inequality, 2002

US \$ at current PPP rates.

Countries sorted in ascending order of GDP per capita





# Conclusions

- Some significant differences in levels of countries' performance relative to GDP per capita
- Differences in changes limited to extreme assumptions on valuation

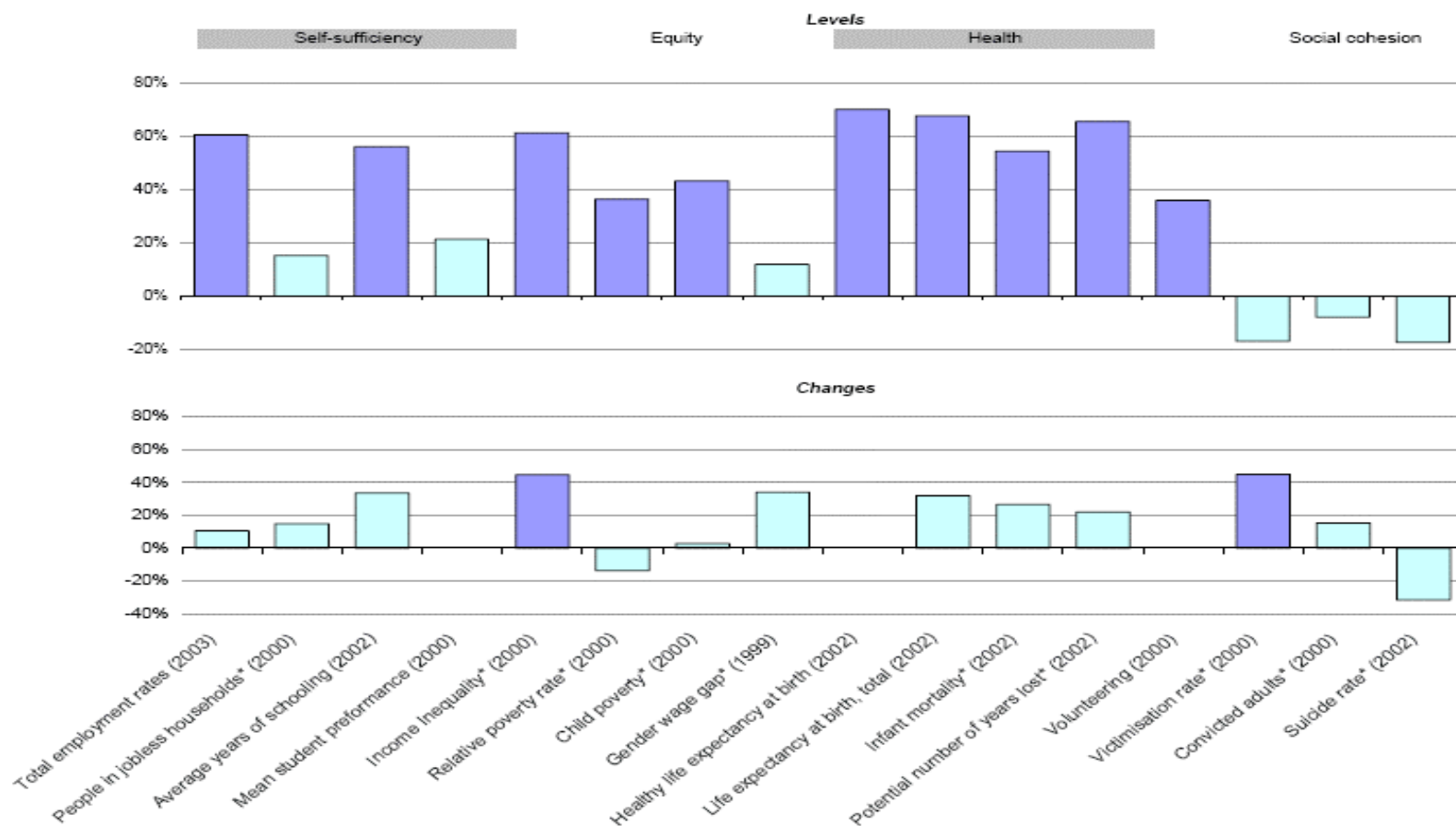


## 2.2 – Non-monetary social indicators

- Measures of selected outcome in four fields. Focus on 16 indicators:
  - Self sufficiency (employment rate, share of population in jobless households, avg. years of schooling, student test scores)
  - Equity (Gini income inequality, relative income poverty for total population and for children, gender wage gap)
  - Health (life-expectancy, infant mortality, potential years of life lost)
  - Social cohesion (participation in voluntary groups, victimisation rate, share of convicted adults, suicides)

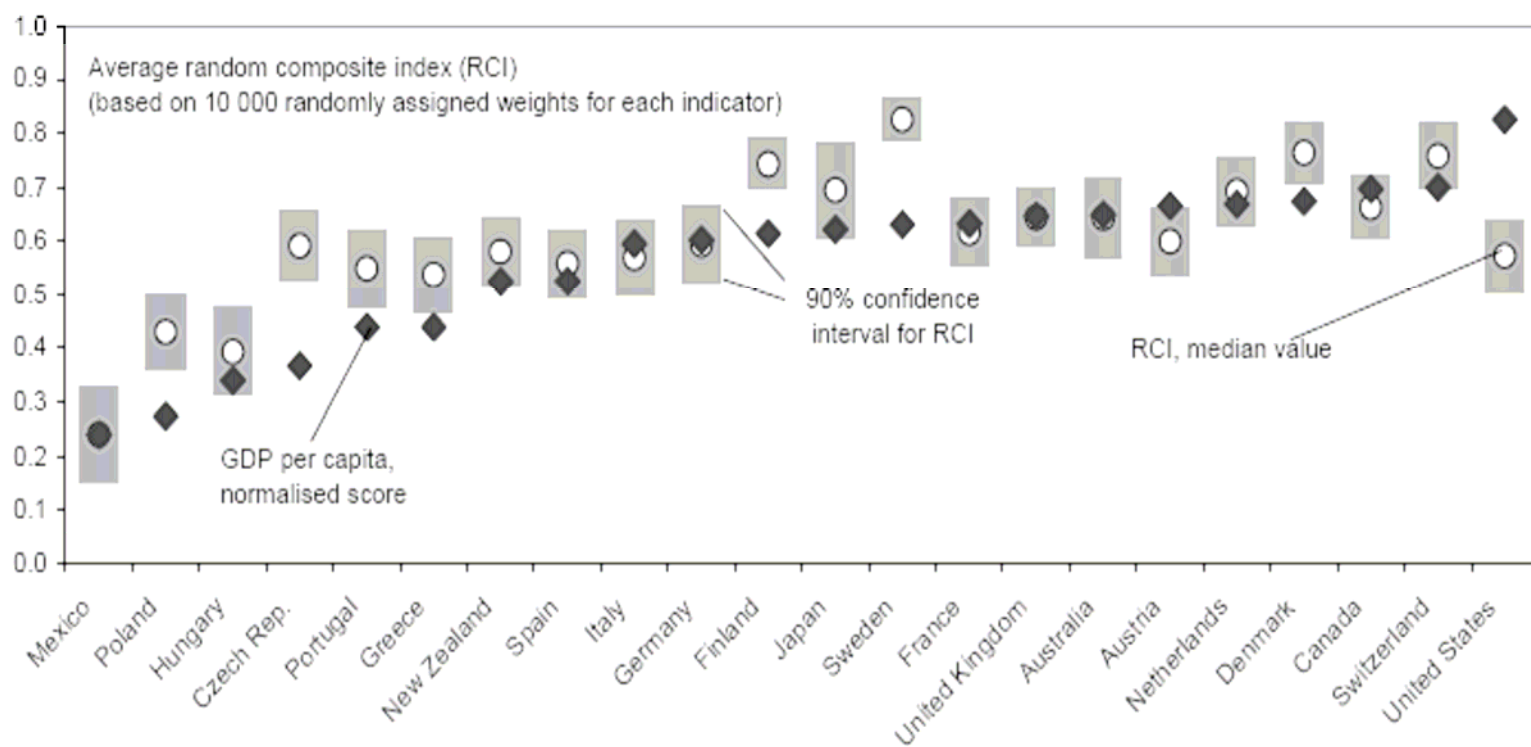
## Significant correlations between indicators and GDP in levels, but non in changes

Figure 13. Cross-country correlations between per capita GDP and different social indicators in OECD countries



## Aggregation: some significant differences in economic and social performances for some countries

Figure 14. Median value and confidence interval of a composite index based on selected social indicators in OECD countries and GDP per capita



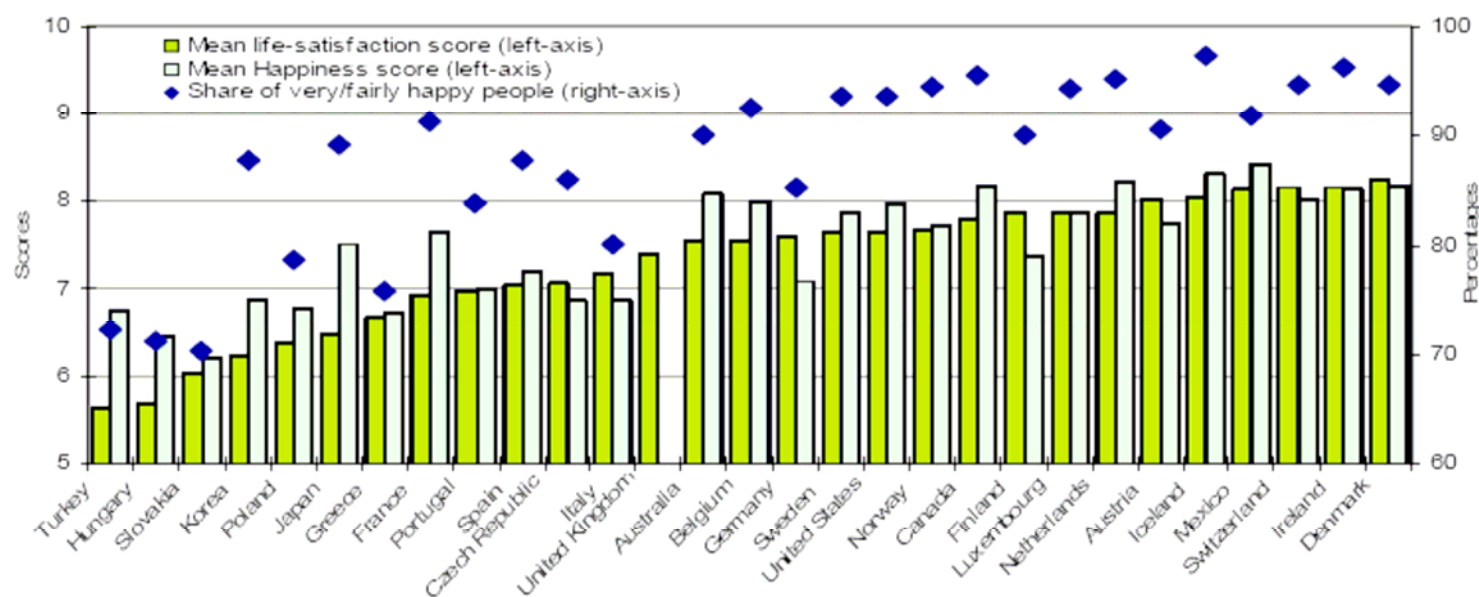


## 3 – Subjective measures

- Measures of:
  - Life satisfaction
  - Happiness
- World values survey

## Subjective measures of life satisfaction: 90% of respondents are satisfied with their life in 2/3 of countries

Figure 15. Different measures of subjective well-being in OECD countries, 2000

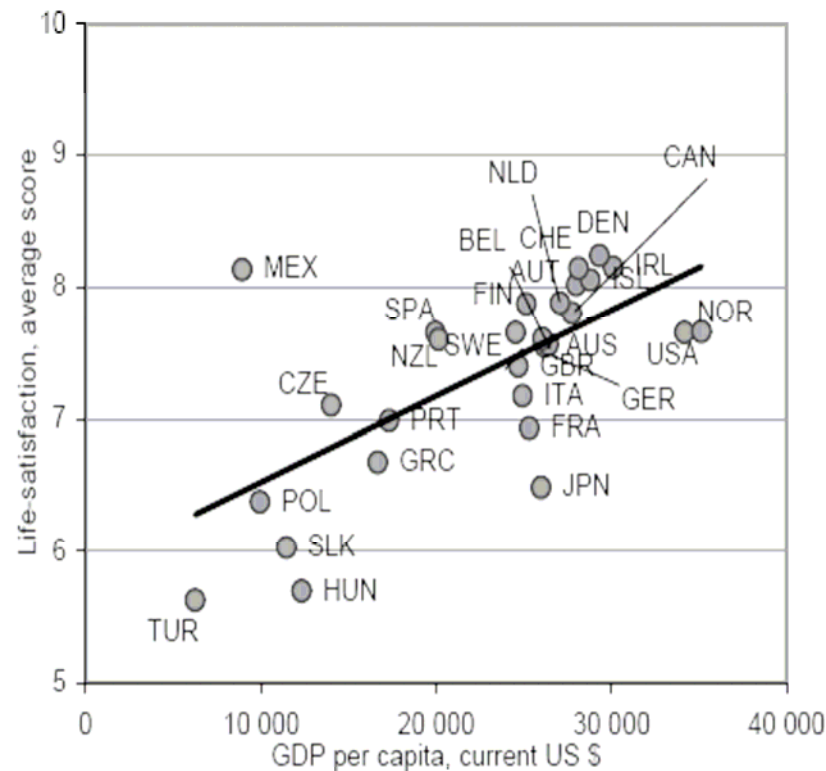


Notes: Countries are ranking (from left to right) in terms of increasing levels of the mean life-satisfaction score. Mean scores range between 0 and 10.

Source: Calculations from *World Values Survey*, 1999-2001.

- **Weak relationship with GDP per capita**
- **Importance of adaptation of individuals to higher income**

Figure 16. Cross-country relation between average life-satisfaction and GDP per capita in OECD countries, 2000







## Next Steps

- More work is necessary
- OECD horizontal project on “indicators for measuring progress and indicators for policy making”
- Second World Forum (27-30 June 2007, Istanbul) on “Measuring and Fostering the Progress of Societies”

# Towards the second World Forum Event

- The OECD is now planning the second World Forum, to be held in Turkey (June 27-30 2007)
- Regional preparatory events are being planned in:
  - Latin America (Costa Rica, October 5&6 2007)
  - Middle-East (Qatar – 2006 Q4)
  - Asia (Korea – Feb 7&8 2007)
  - Africa (Rwanda – 2007Q1)
- Working in co-operation with the European Commission, the United Nations and the World Bank.



## For More Information

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