THE OECD INCLUSIVE GROWTH FRAMEWORK: FIRST RESULTS AND PLANS FOR THE FUTURE

Paul Schreyer
OECD Deputy Chief Statistician

Economic Measurement Group
UNSW
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BACKGROUND

- GDP is not a metric of people's well-being and is often at variance with people's personal experiences;
- GDP should be recognized as a means to an end, not the ultimate objective of policy
- There is a need for better measures of well-being that:
  - reflect distributions
  - reflect quality of life
-

Dashboard of country performance:

MEASURING INCLUSIVE GROWTH

Social welfare function (Kolm 1966, Atkinson 1970, Sen 1973, Jorgenson 1990, Fleurbaey and Blanchet 2013, Jones & Klenow 2012)

Living standards = income of target group

$$W \quad W \quad y_1, y_2, ... y_N$$

General

$$W \quad \frac{1}{N} \quad y_i^{1} \quad {}^{\frac{1}{1}}$$

CES specification

y_i : *income of household group i*

:'*aversion to inequality*':

$0 \quad W \quad \bar{y}$

$1{,}5 \quad W \quad median(y)$

$10 \quad W \quad bottom\ decile(y)$

Social welfare function (2)

Presentation as

$$\underbrace{W \quad \bar{y}}_{\text{Average}}\underbrace{[1 \quad I(y_1, y_2, \ldots y_N, \quad)]}_{\text{Adjustment for distribution}}$$

$\bar{y}$: average HH income

$I(y_1^*, y_2^*, \ldots y^*, \quad) \quad 1 \quad W / \bar{y}$:

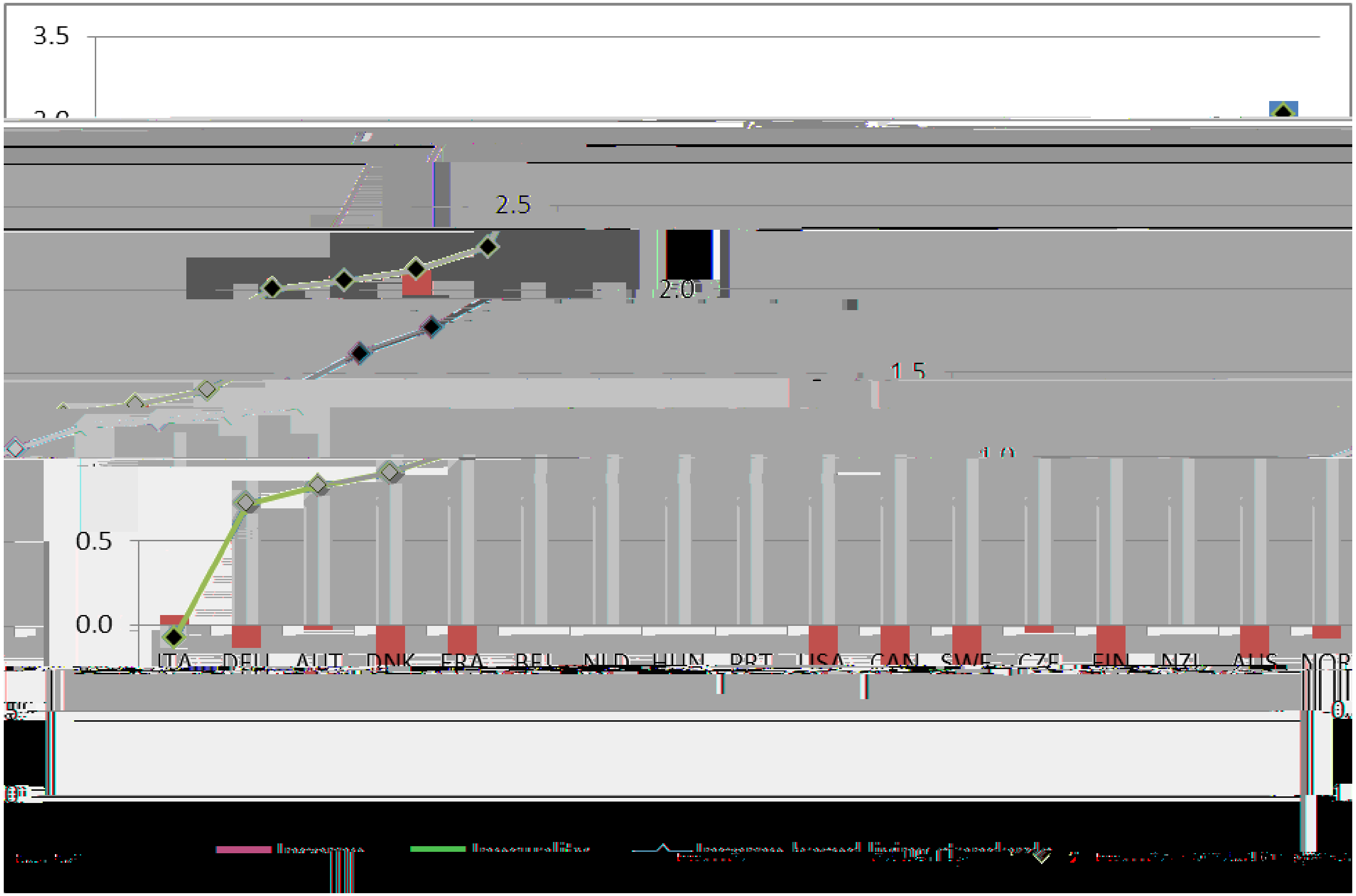
Kolm Atkinson inequality measure :

relative distance of target group from average

Simplest case: Income-based measure of living standards

Target group: median household

Average annual percentage change, 1995-2012



- But our work on well-being tells us to go beyond income
- 2 most important factors for people's life assessment in addition to income:
  - Jobs (low risk of unemployment)
  - Health

- Measure of Multi-dimensional Living Standards adjusts income-based

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- Equivalent income (y*)=

- Income: Household real disposable income
- Jobs:

Valuing health and jobs with shadow prices that reflect average preferences

Panel regression:

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: Life satisfaction

: HH real disposable income

: Life expectancy

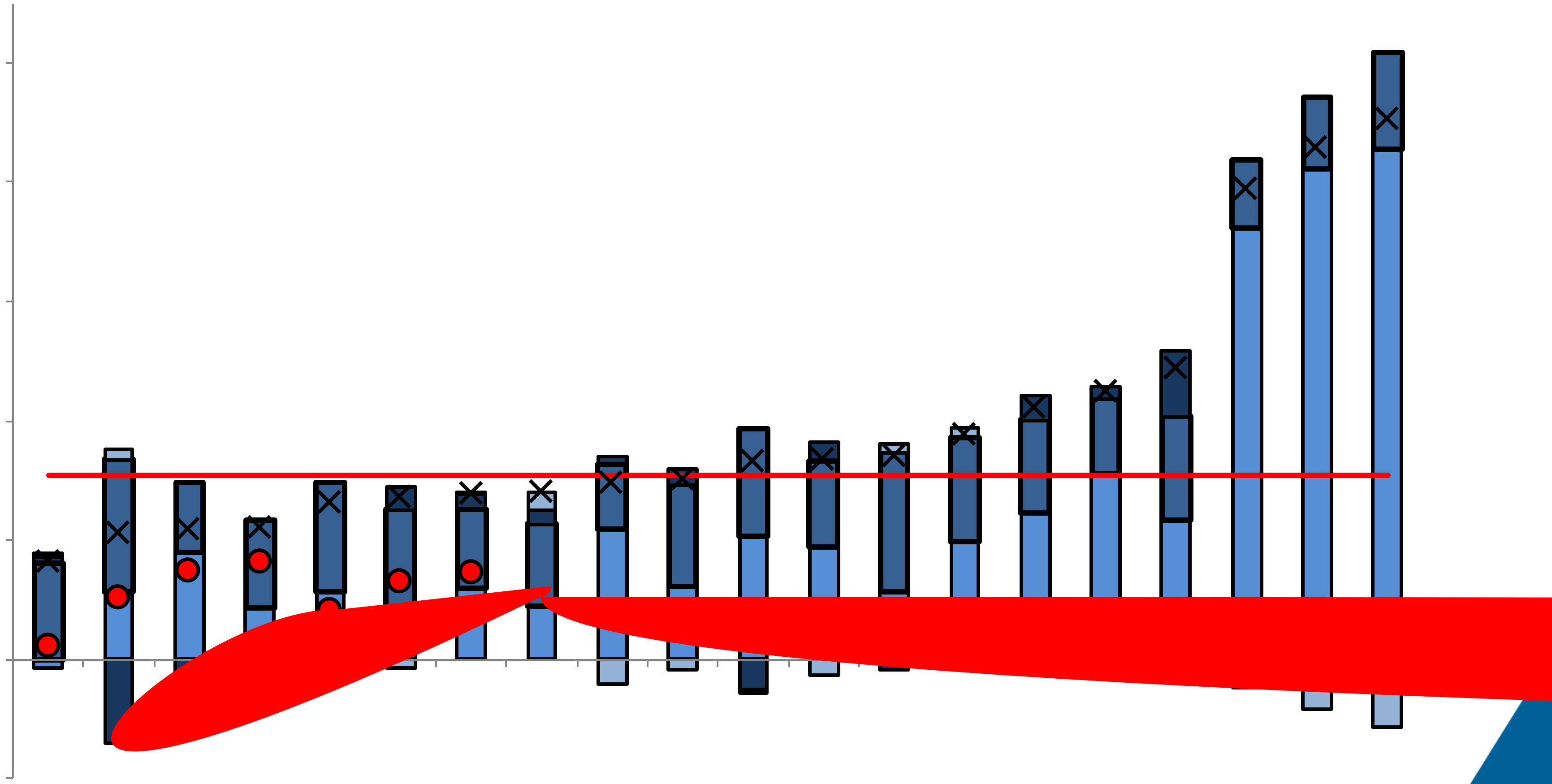
: Unemployment rate

Compensating differentials for T and U as constant share of HH income

- 1 year of life expectancy ≈ 5% of income
- 1 %pt of unemployment ≈ -2% of income

SOME RESULTS

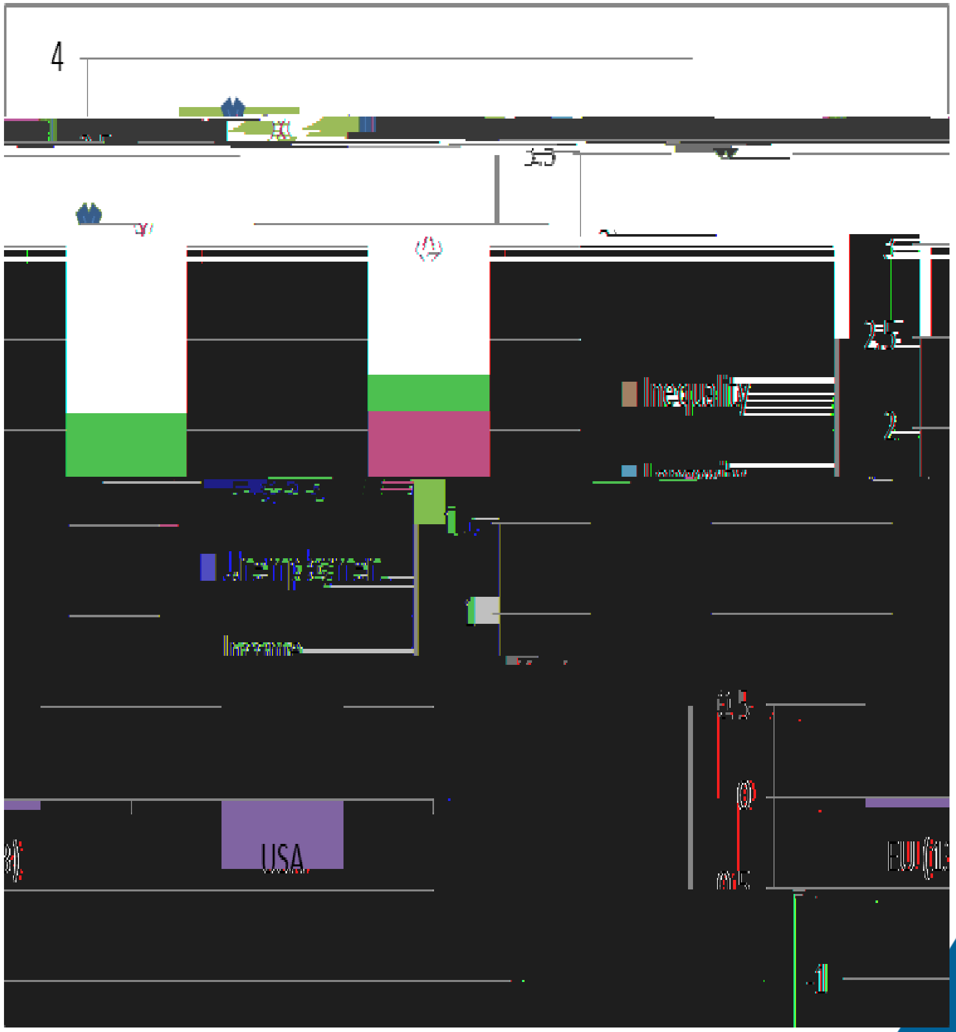
Decomposition of average in MLS between 1995 and 2012



Subperiods: EU and US before the crisis (1995-2007)...

Decomposing growth in multidimensional living standards for median households (X)

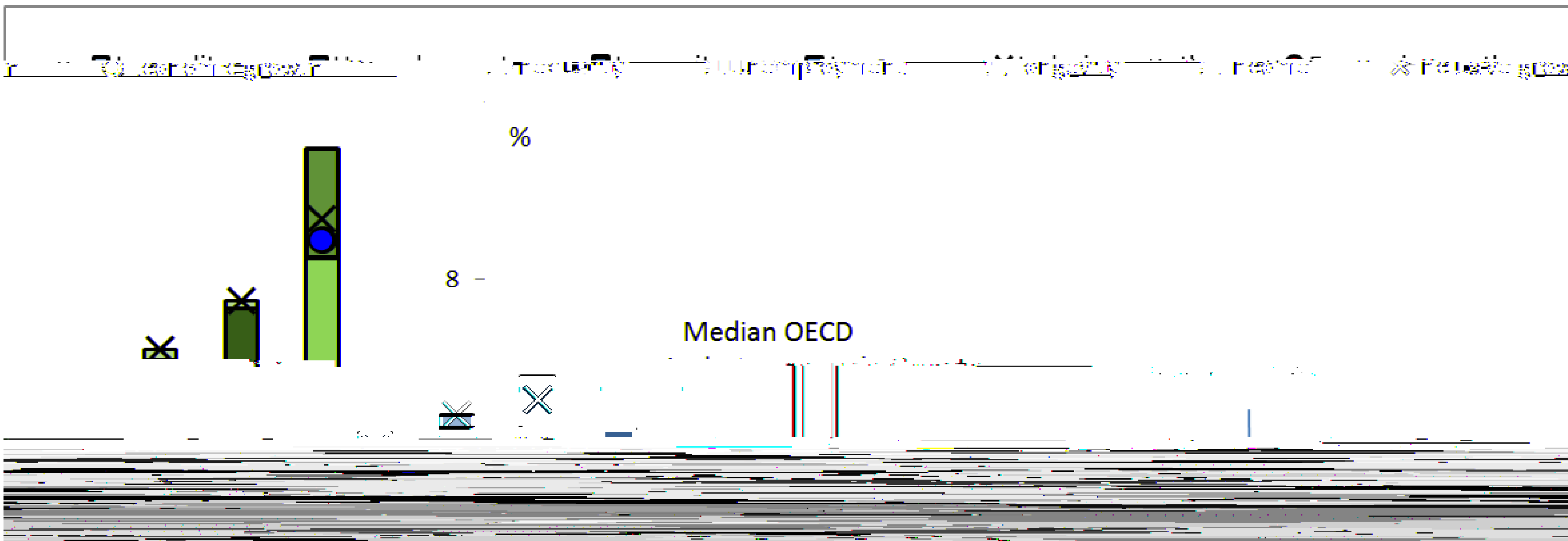
- *Stronger income growth in the US*
- *But longevity increases less rapidly than in the EU*
- *Income of middle class in the US grows less than average income*



... and during the crisis, 2007-12

Similar effects in EU and US due to the crisis, drop

In normal times, income and longevity growth are the main contributors to growth in MLS (+1 year of longevity = +5% in income)



Accounting for growth of living standards during the crisis, 2007-2012

Strong impact of rise in unemployment on MLS growth during crisis (+1ppt unemployment = -2% income)

=> GDP does not reflect the ‘true’ human cost

Link to policies : Assessing trade-offs and synergies

- Assessing the impact of various growth-enhancing policies on the level and distribution of income, jobs and health (and other well-being dimensions)

- For example:
- Who benefits most from structural reforms?
- Easing job protection legislation (e.g. reducing duration of unemployment benefits or stepping up job search and activation programs) has positive effects on employment but also important (negative and positive, resp.) distributional effects – what is net effect?
- Environmental regulation may have negative effects on productivity and income growth but positive effects on health

Thank you!

Paul.Schreyer@oecd.org

Additional slide: median households not necessarily benefiting from GDP growth...

Source: OECD Income Distribution and Annual National Accounts Databases.