



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

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BACKGROUND

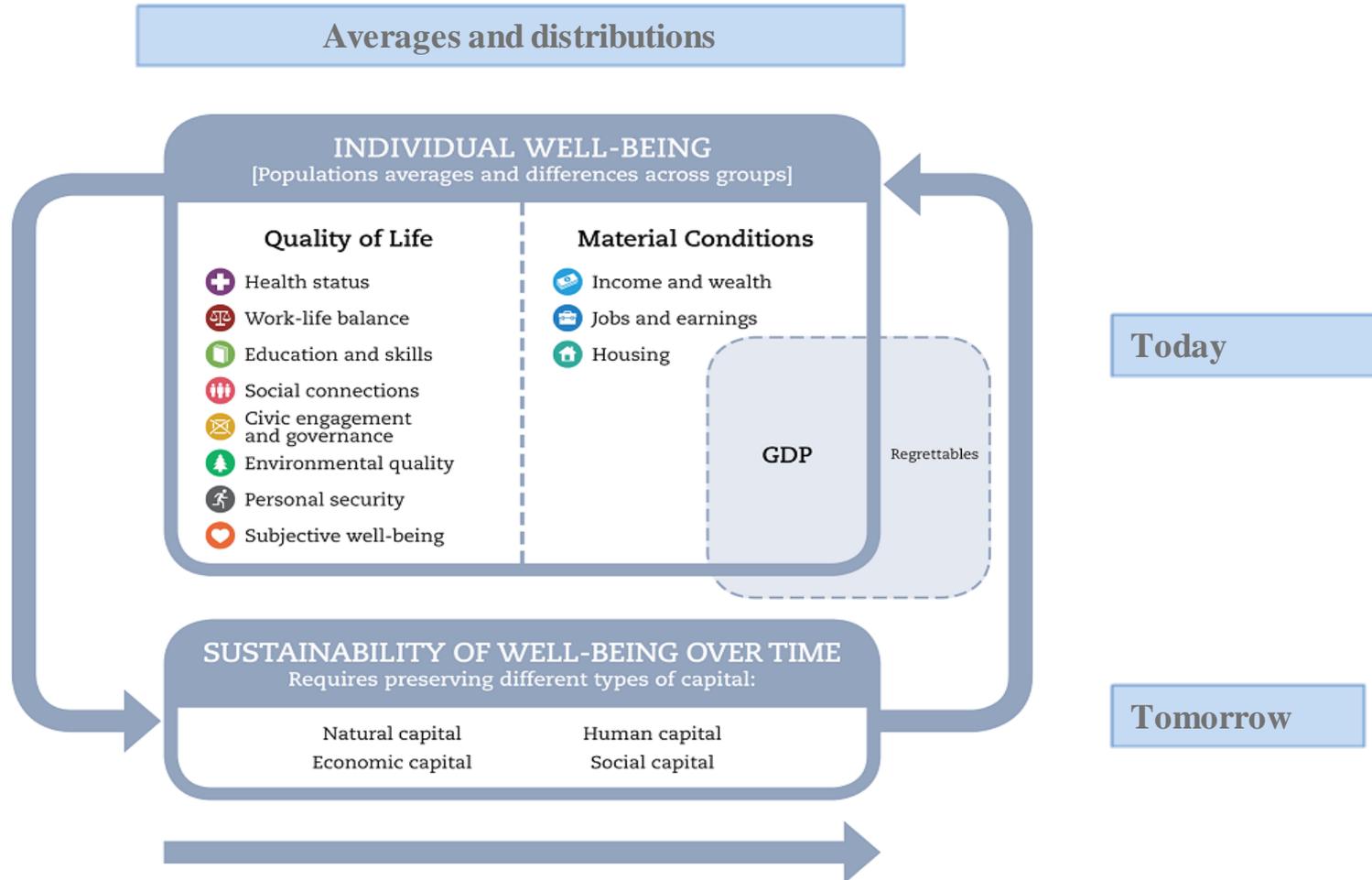


Measuring well-being: why?

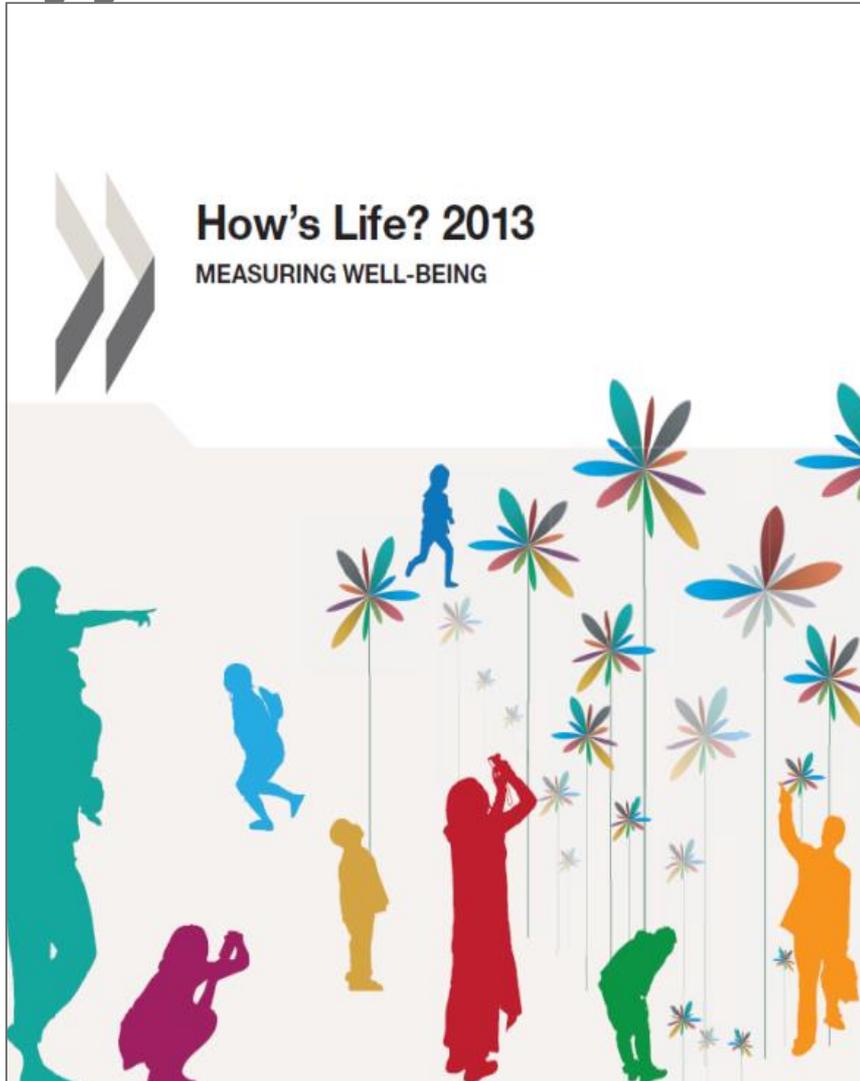
- GDP is not a metric of people's well-being and **is often at variance with people's personal experiences**;
- GDP should be recognized as a **means to an end**, not the ultimate objective of policy
- There is a need for **better measures of well-being** that:
 - reflect **distributions**
 - reflect **quality of life**
- Not only an issue of fairness and social justice, but key to **enhance long-term growth prospects and restore trust**
- Ultimately, we need **improved measures** to make **better policies**



OECD Well-being Framework



Dashboard of country performance: How's Life? 2013



How's Life at a glance

The human costs of the financial crisis

Gender gaps in well-being

Job quality: Well-being in the workplace

Measuring sustainability of well-being over time



MEASURING INCLUSIVE GROWTH



Inclusive Growth: Developing a measure of Multidimensional Living Standards (1)

- Applying well-being framework to develop an overall measure, needed to quantify and analyse policy trade-offs
- No aggregate measure of 11 dimensions but of some key dimensions
- Simplest case: combining income levels and income inequalities : **the income-based measure of living standards**
 - Measure of average household income corrected for deviation of target group from the average
 - Target group: median, bottom 10%,...a **normative choice**

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

Living standards = income of target group

$$W = W(y_1, y_2, \dots, y_N)$$

General

$$W = \left(\frac{1}{N} \sum y_i^{1-\tau} \right)^{\frac{1}{1-\tau}}$$

CES specification

y_i : *income of household group i*

τ : '*aversion to inequality*':

$$\tau = 0 \rightarrow W = \bar{y}$$

$$\tau = 1,5 \rightarrow W \approx \text{median}(y)$$

$$\tau = 10 \rightarrow W \approx \text{bottom decile}(y)$$



Social welfare function (2)

Presentation as

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

Average Adjustment for distribution

\bar{y} : average HH income

$I(y_1^*, y_2^*, \dots, y_N^*, \tau) \equiv 1 - W / \bar{y}$:

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





Inclusive Growth: Developing a measure of **Multidimensional Living Standards (2)**

- 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 measure for risk of unemployment and differences in life expectancy vis-à-vis best performer



From disposable to equivalent income

- **Equivalent income (y^*)=**

Household real disposable income

less monetised loss due to unemployment

less monetised loss due to lower life expectancy

than best performer in the sample

- **Multi-dimensional living standards:**

$$W^* = W(y_1^*, y_2^*, \dots, y_N^*) = (\bar{y} + \bar{\mu})(1 - I)$$

- **Growth is inclusive if W^* rises**



Choice of variables

- **Income:** Household real disposable income
- **Jobs:** unemployment
 - strong determinant of subjective WB
 - refinement: unemployment by duration or outflow rate
 - alternative: employment rate: captures differences in labour market participation



Choice of variables (2)

- **Health:** Life expectancy
 - Morbidity preferable?
 - But: data availability and aggregation
 - Also, significant variance between countries and socio-economic groups
 - Likely to be more accentuated in developing countries and emerging economies



Valuing health and jobs with shadow prices that reflect average preferences

Panel regression:

$$LS_{j,t} = a_j + b_t + \alpha \log y_{j,t} + \beta^T T_{j,t} + \beta^U U_{j,t} + \varepsilon_{j,t}$$

LS: Life satisfaction

y: HH real disposable income

T: Life expectancy

U: Unemployment rate

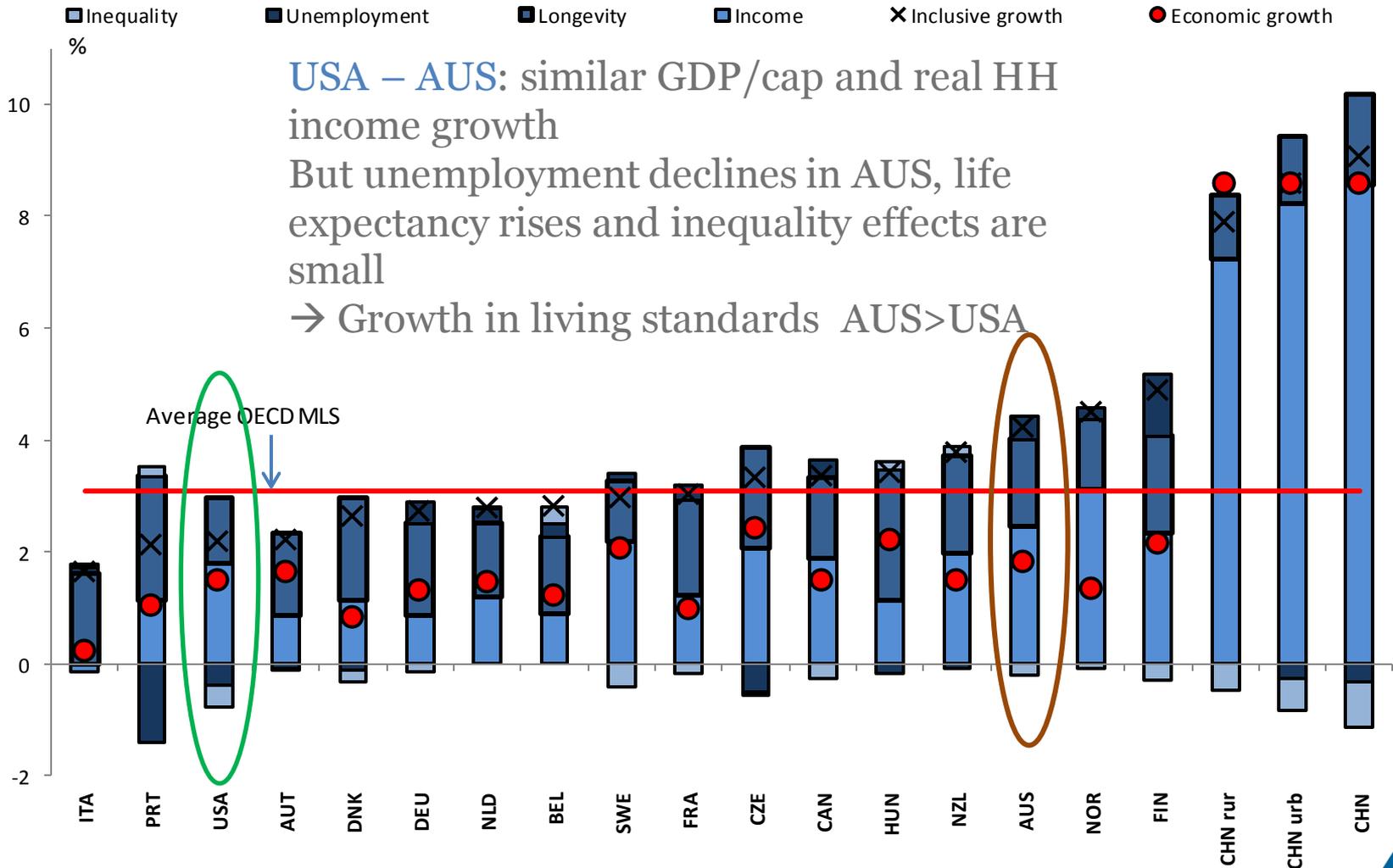
→ Compensating differentials for T and U as constant share of HH income

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



SOME RESULTS

Decomposition of average *growth* in MLS between 1995 and 2012

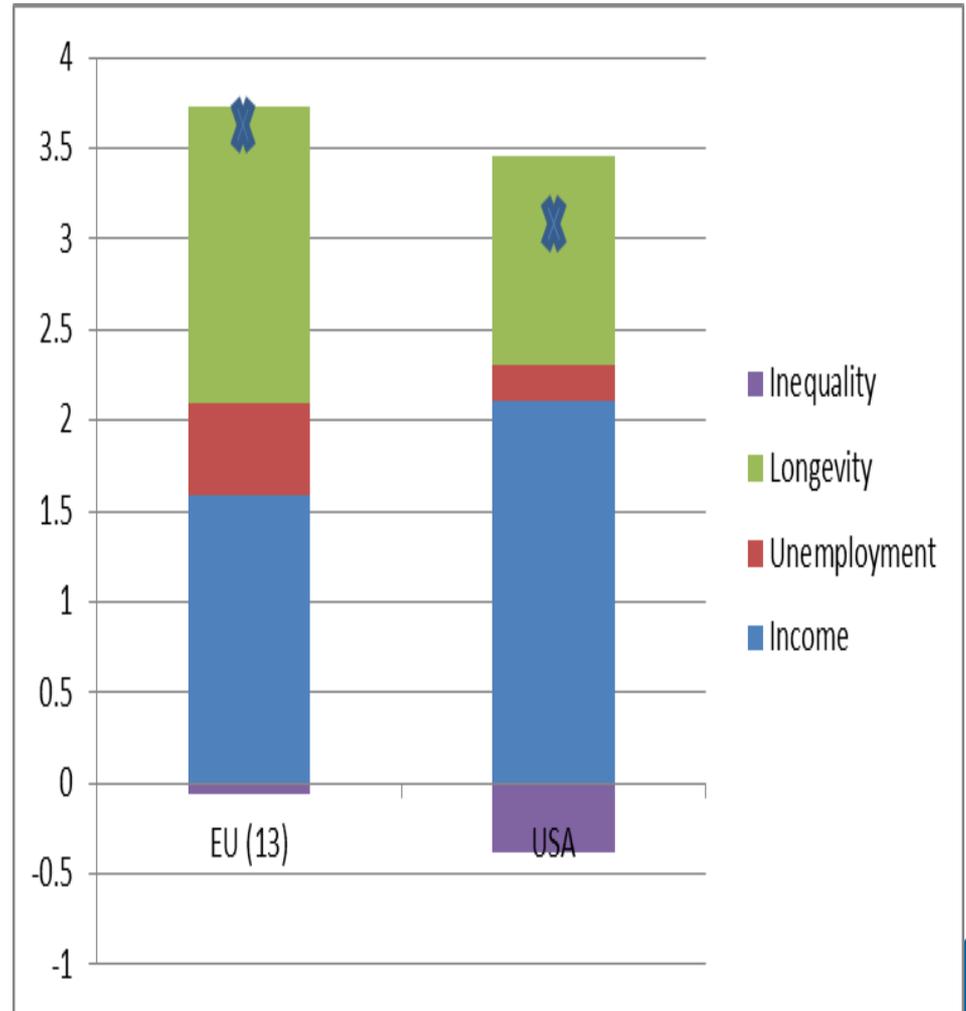




Subperiods: EU and US before the crisis (1995-2007)...

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*



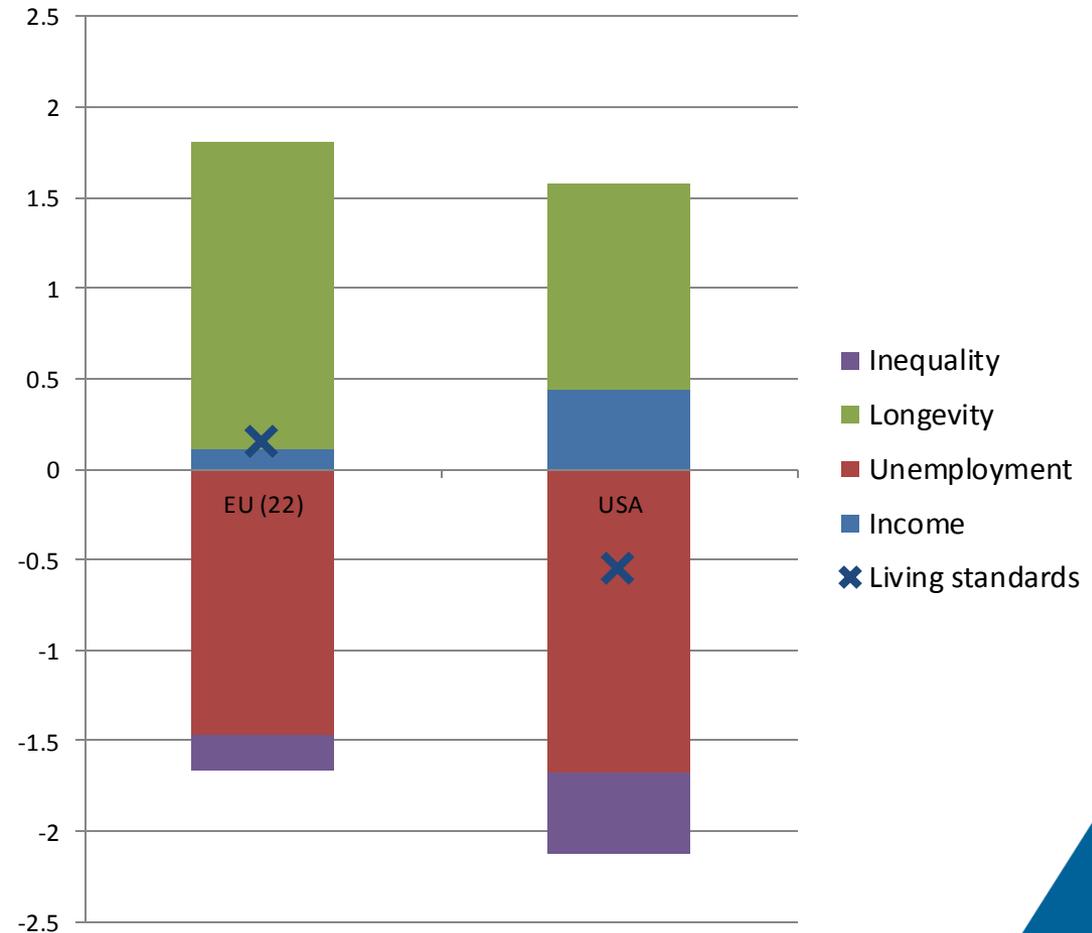


... and during the crisis, 2007-12

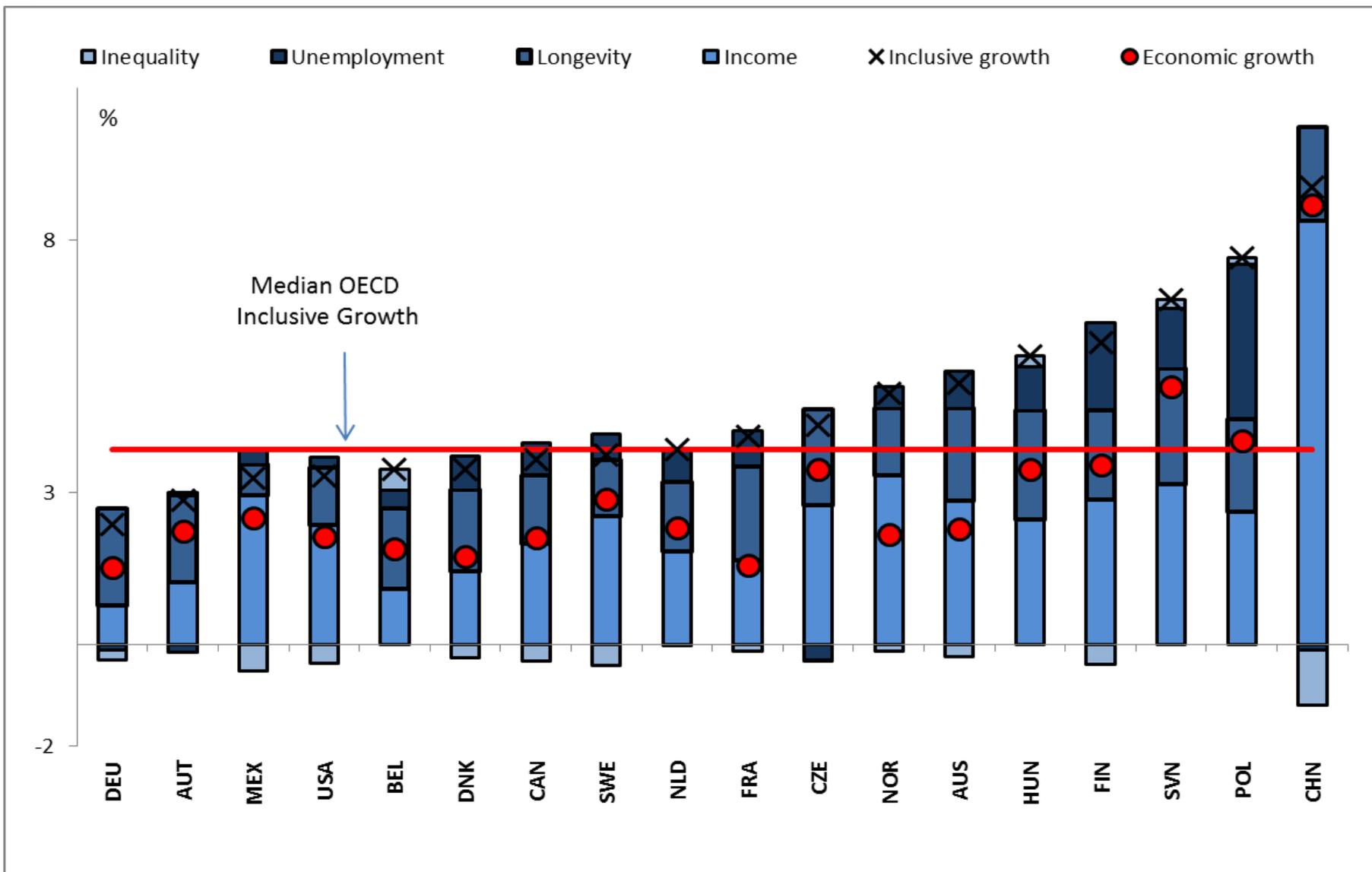
Similar effects in EU and US due to the crisis, drop in multidimensional living standards (X) :

- *Increase in unemployment*
- *Very weak income growth*
- *Increase in inequalities, also in the EU*

But note: continued differences in the evolution of longevity



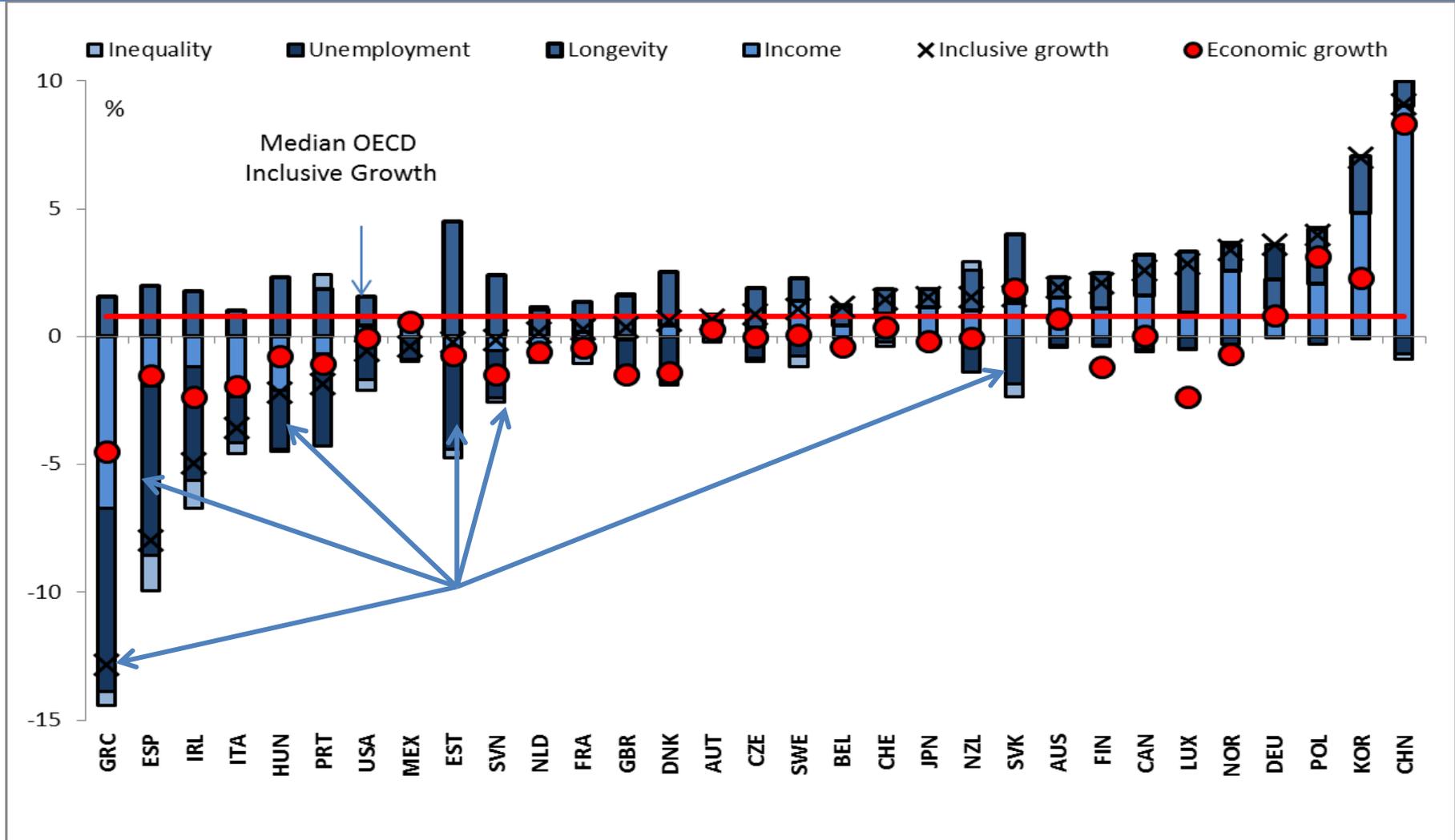
In normal times, income and longevity growth are the main contributors to growth in MLS (+1 year of longevity = +5% in income)



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

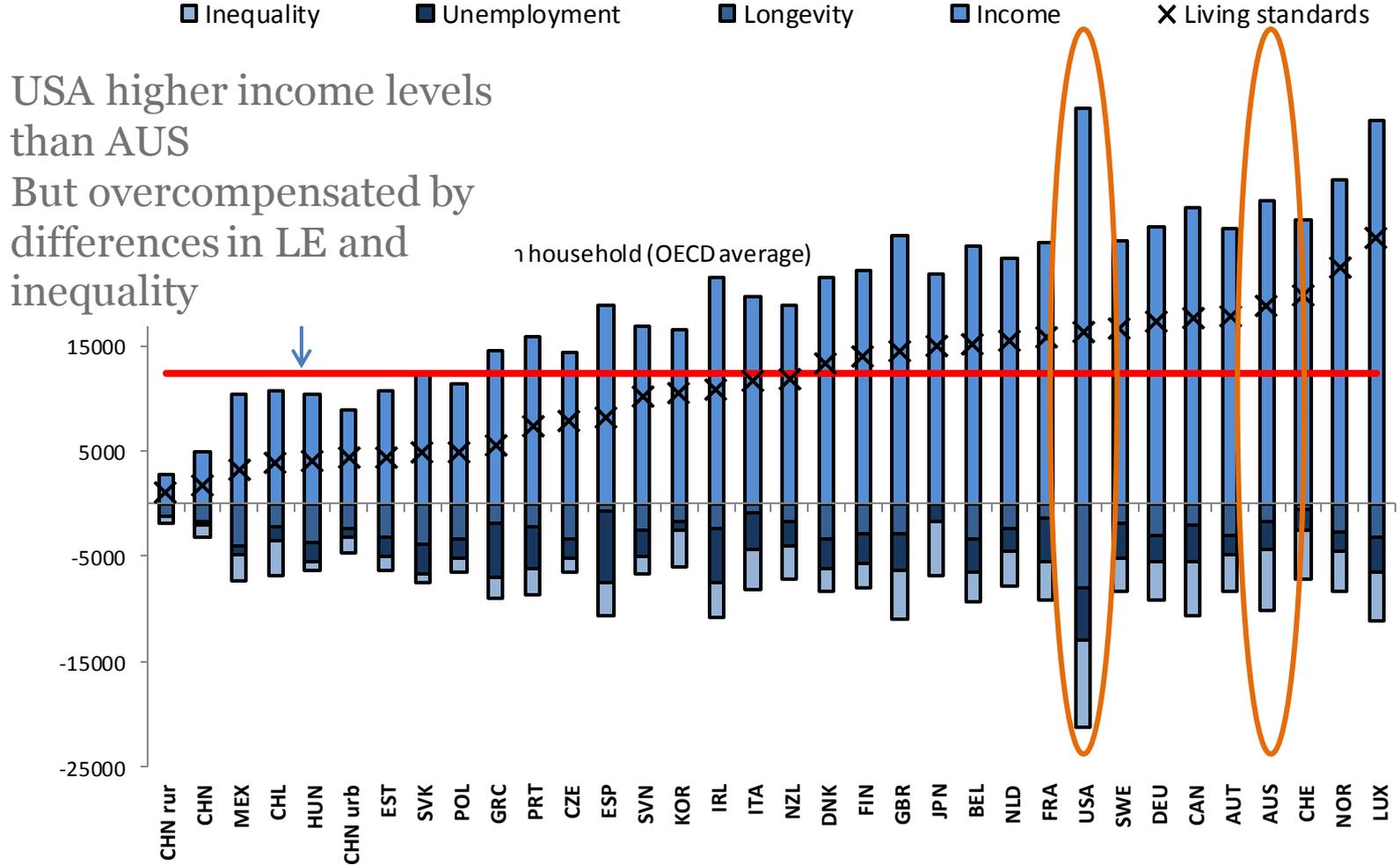
Strong impact of rise in unemployment on MLS growth during crisis (+1ppt unemployment = -2% income)

=> GDP does not reflect the 'true human cost' of the crisis!





... and of 2012 MLS levels





Inclusive Growth: What's next ?

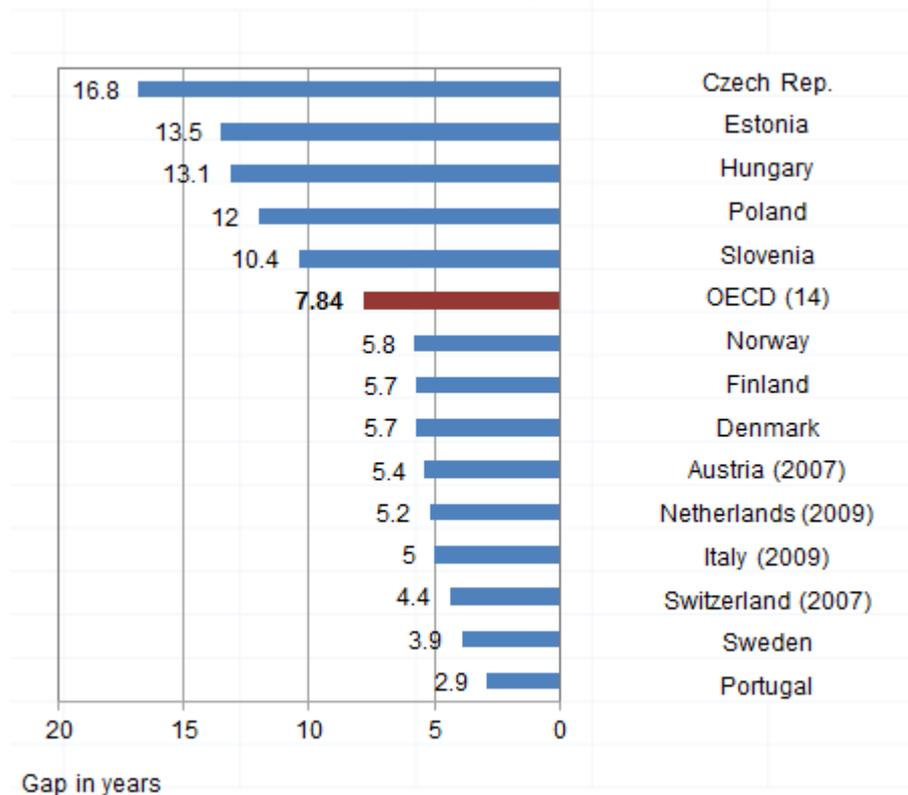
- *Measurement agenda:*
 - Timeliness and completeness of data
 - Testing robustness of MLS measure
 - Alternative measures for the jobs dimension: long-term unemployment
- *Break-down by gender and level of education*
- *Introduce inequalities in health*



Unequal opportunities from good health can be large and will likely increase the impact of inequality

Gap in life expectancy among men at age 30 by education

Years of life expected for men with tertiary education less those for men with below upper secondary, 2010





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



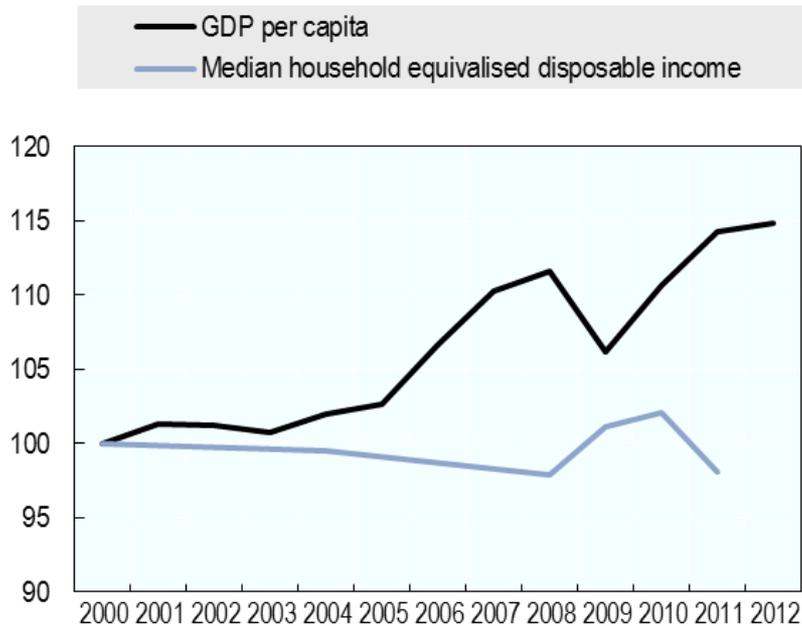
Thank you!

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

Germany



United States

