Measuring Material Well-being

Paul Schreyer (OECD)
1. Background
OECD work on well-being covers 3 dimensions

1. **Material well-being**: mainly national accounts-related measures

2. **Quality of life**:
   i) Health status; ii) Work and life balance; iii) Education and skills; iv) Civic engagement and governance; v) Social connections; vi) Environmental quality; vii) Personal security; and viii) Subjective well-being

3. **Sustainability** (Environment, human capital)
OECD approach

1. Multi-dimensional

2. Focus on **households** and individuals

3. Focus on **outcomes**

4. **Distributions** important
The report paints a picture of people’s lives in OECD countries and other major economies, based on a dashboard of indicators.

It will be updated every 2 years.
2. Measures of material well-being
GDP is a good measure for monitoring macro-economic activity

- Needed for macro-economic policies,
- Output, capacity utilisation
- Competitiveness
- Demand for jobs
- Productivity
- ...in short, for the supply-side of the economy
A word on GDP…(cont’d)

• Needs to be supplemented but not supplanted by other measures

• ‘GDP and beyond‘ rather than ‘Beyond GDP’
2 a. Total economy
Better use of existing national accounts measures (1)

- **Total Economy:**
  - *Income* rather than production
  - *National rather domestic:* account for income payments in and out of the country, e.g. remittances
  - *Net rather than gross:* account for
    - Depreciation of fixed assets
    - Depletion of natural resources (mineral & energy resources, soil, timber, water, aquatic resources)
  - *Real measures rather than volumes:* deflate with consumption price index

→ Real net national income, depletion-adjusted
Needed: environmental information:
OECD’s work on green growth

• Implementation of new **System of Environment-Economic Accounts**

• **Green growth indicators**: includes index of natural resource use

→ **same statistical information as for depletion adjustment**
2 b. Households
Differences between GDP and household income growth within countries are often as large as cross-country differences in GDP growth (1998-2008)
Better use of existing national accounts measures (2)

- **Household sector:**
  - **Disposable income:** capture monetary transfers, taxes and incomes received from and paid to abroad
  - **Adjusted disposable income:** capture government services in kind (health, education, housing)
  - **Real measures rather than volumes:** deflate with consumption price index
  - **Add distributional information:** e.g. median income

→ **Real median adjusted disposable household income**
OECD Project

- Examine coherence of micro data on household income with national accounts

- Use micro-information on income distribution to disaggregate national accounts household sector

- 20 pilot countries

- First set of results end 2012

- Periodic publication afterwards
### Example: Adjusted disposable HH income in France

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
<th>Q5/Q1</th>
<th>All households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary income</td>
<td>7 500</td>
<td>17 200</td>
<td>24 400</td>
<td>32 800</td>
<td>60 600</td>
<td>8,1</td>
<td>28 600</td>
</tr>
<tr>
<td>Contributions and taxes</td>
<td>-2 800</td>
<td>-6 600</td>
<td>-9 800</td>
<td>-13 500</td>
<td>-24 800</td>
<td>-11 500</td>
<td>-11 500</td>
</tr>
<tr>
<td>Benefits and other transfers</td>
<td>5 400</td>
<td>5 800</td>
<td>6 400</td>
<td>7 500</td>
<td>14 200</td>
<td>7 800</td>
<td>7 800</td>
</tr>
<tr>
<td>Disposable income</td>
<td>10 100</td>
<td>16 400</td>
<td>21 000</td>
<td>26 800</td>
<td>50 000</td>
<td>5,0</td>
<td>24 900</td>
</tr>
<tr>
<td>Social transfers in kind</td>
<td>7 400</td>
<td>5 900</td>
<td>5 400</td>
<td>5 000</td>
<td>5 100</td>
<td>0,7</td>
<td>5 800</td>
</tr>
<tr>
<td>Adjusted disposable income (after social transfers in kind)</td>
<td>17 500</td>
<td>22 300</td>
<td>26 400</td>
<td>31 800</td>
<td>55 100</td>
<td>3,2</td>
<td>30 700</td>
</tr>
<tr>
<td>Consumption expenditure</td>
<td>9 900</td>
<td>15 400</td>
<td>19 800</td>
<td>24 400</td>
<td>33 100</td>
<td>3,3</td>
<td>20 600</td>
</tr>
<tr>
<td>Actual consumption</td>
<td>17 300</td>
<td>21 400</td>
<td>25 100</td>
<td>29 400</td>
<td>38 200</td>
<td>2,2</td>
<td>26 400</td>
</tr>
<tr>
<td>Social transfers in kind in % of disposable income</td>
<td>73</td>
<td>36</td>
<td>26</td>
<td>19</td>
<td>10</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Social transfers in kind in % of actual consumption</td>
<td>43</td>
<td>28</td>
<td>22</td>
<td>17</td>
<td>13</td>
<td></td>
<td>22</td>
</tr>
</tbody>
</table>

**Source:** Fesseau and Le Laidier (2010).
‘GDP and beyond’, not ‘Beyond GDP’

Well-being is multidimensional and requires measures of material well-being and quality of life.

For material well-being, 2 types of information:

– Real net national income, depletion-adjusted
– Real adjusted disposable household income, distribution-adjusted

Also: periodically, assess households’ consumption of own-account services but not suitable for the core national accounts.
Thank you for your attention!

Paul.Schreyer@oecd.org