



# Growth and Material Well-Being

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Based on joint work with Facundo Alvaredo,  
Salvatore Morelli and Max Roser as part of the  
Oxford Martin Programme on Economic  
Modelling.

“(British) economy weaker than feared. Growth for 2011 was 0.7%” (Guardian, March 2012).

“We all hear about the amazing growth in GDP, but none of us ordinary people feels the benefit” (FT, April 2012).

1. Relation between GDP and household incomes (understanding the national accounts);
2. Distribution among households of the fruits of growth.

Discussed in A B Atkinson, “Prosperity and Fairness”, paper prepared for the ECFIN Annual Research Conference, November 2011.

# 1. A human face for national accounts

Stiglitz Commission recommendations:

- When evaluating material well-being, look at income and consumption rather than production;
- Emphasise the household perspective.

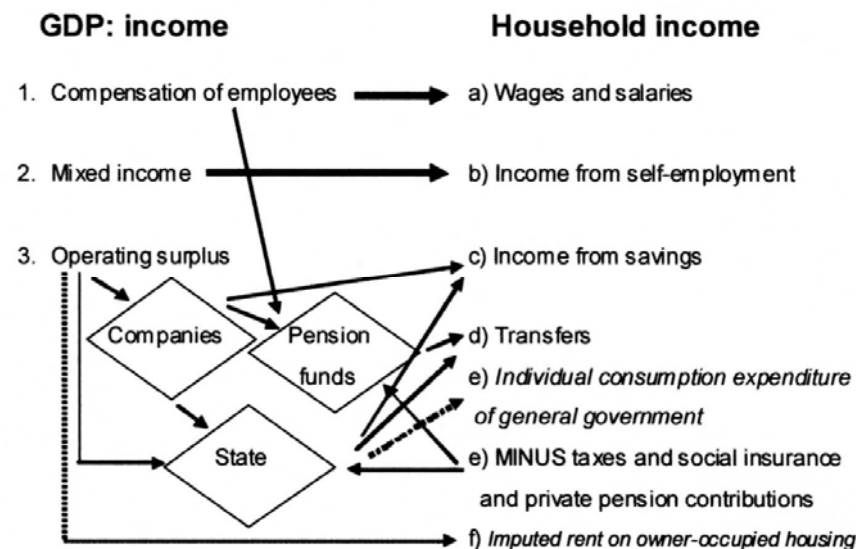
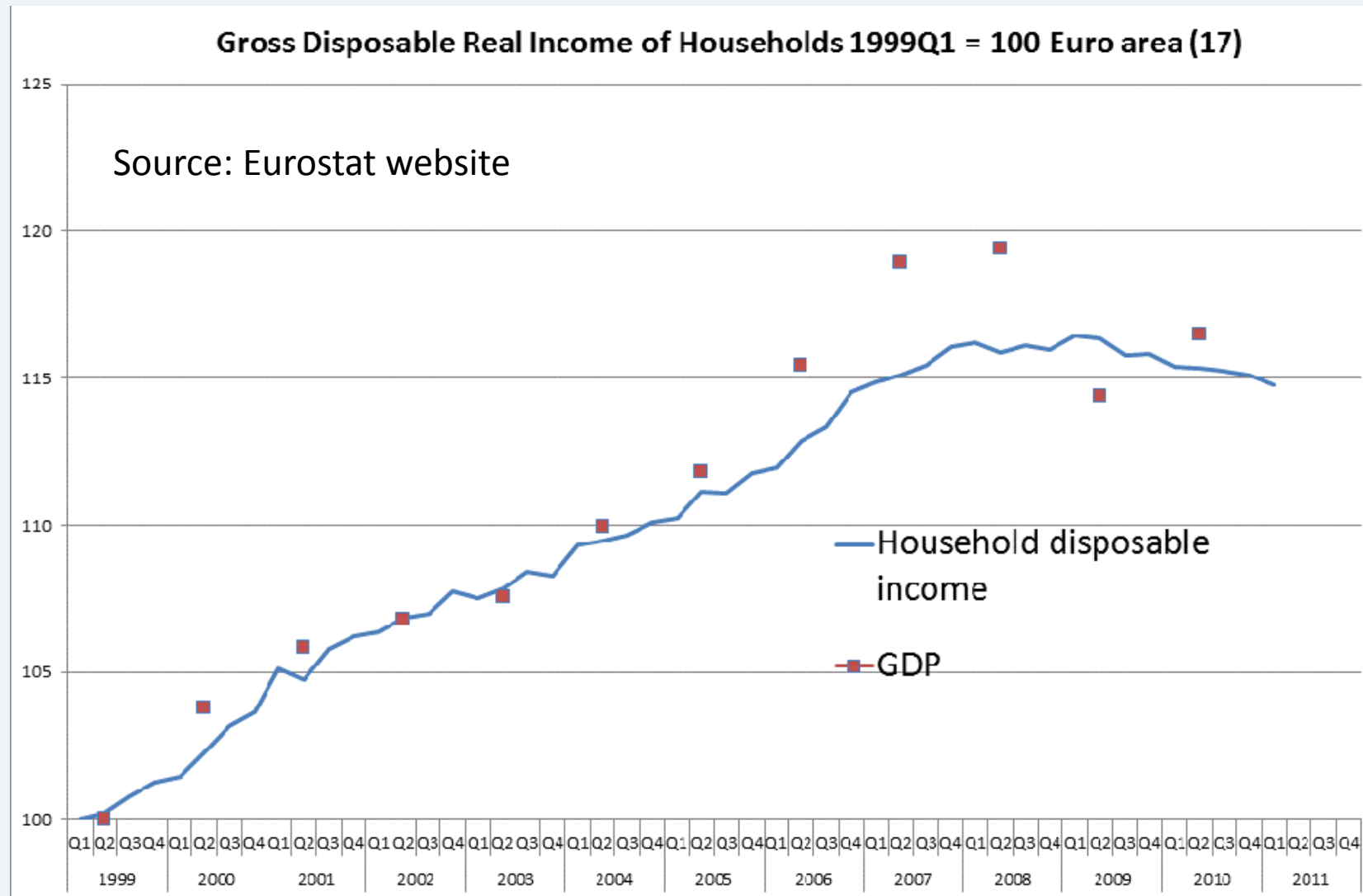


Figure 1 Linking national income flows to household income

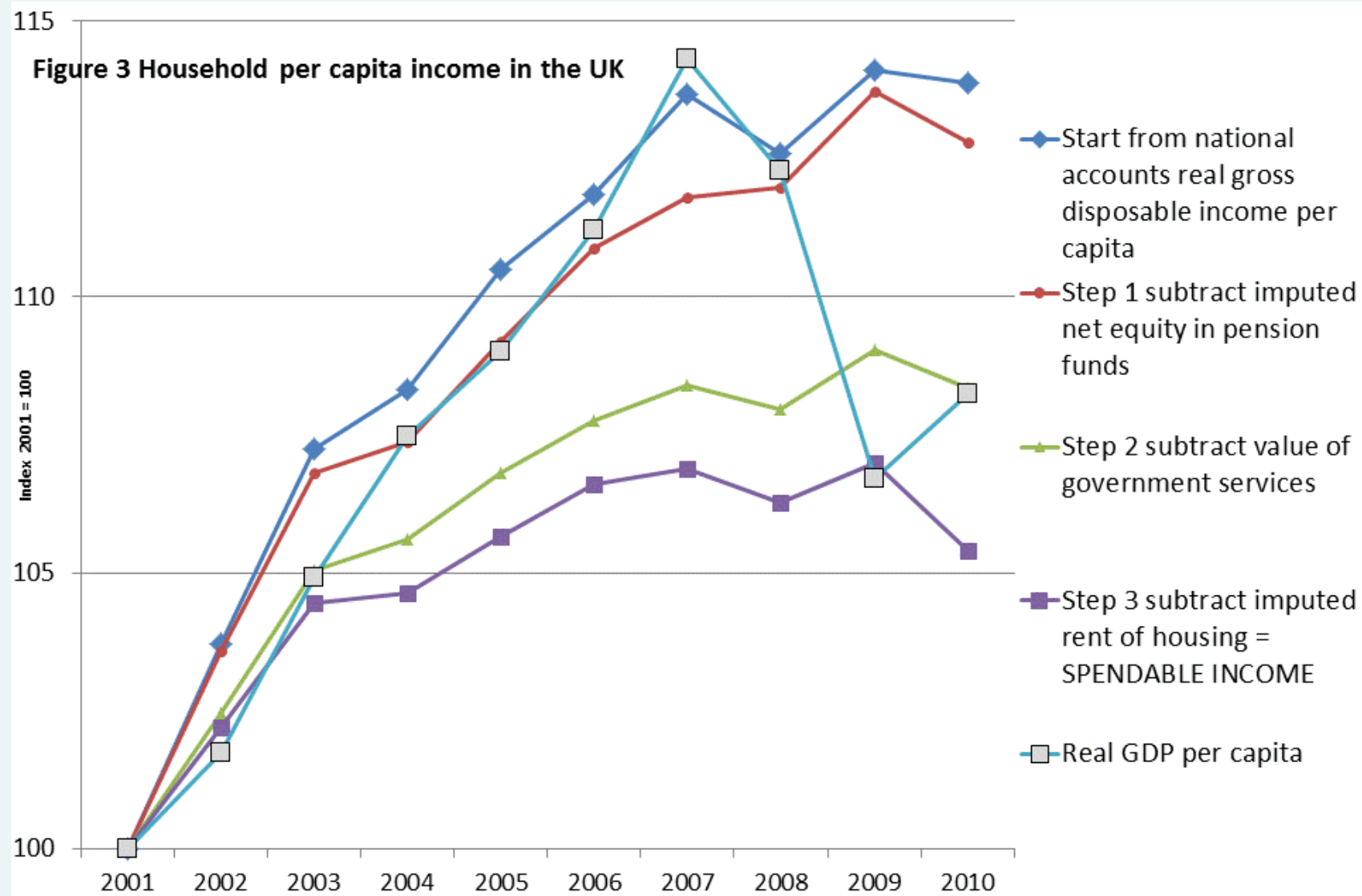
A complex and non-transparent relationship.

# A little-heralded success



From 2003, household income grew less than GDP, but then was protected when GDP fell in 2008.

# But what does it mean?



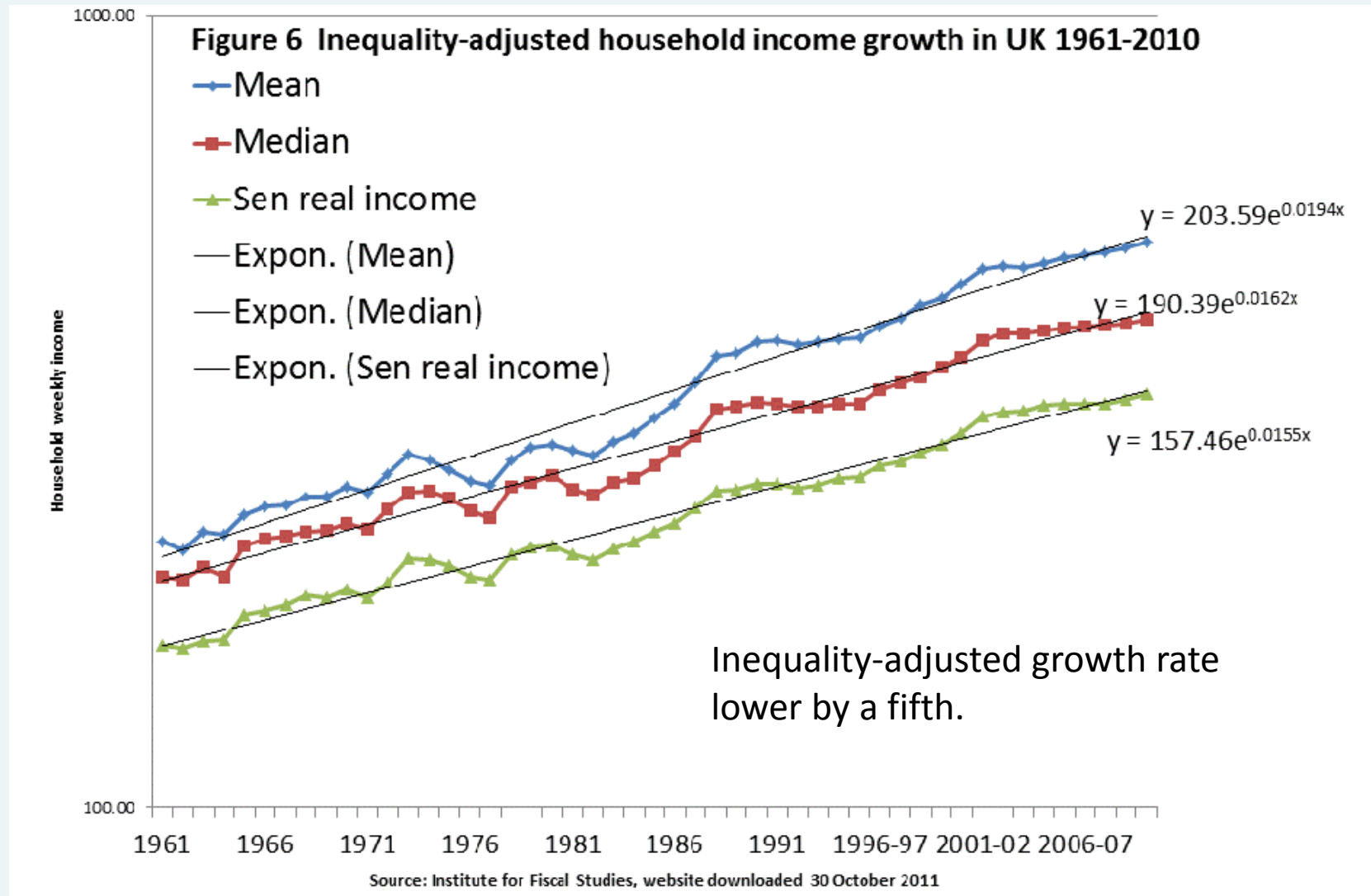
Source: 2011 National Income Blue Book, Tables 1.5, 6.1.6 and 6.4



Stiglitz Commission recommendation 4:  
Give more prominence to the distribution of income,  
consumption and wealth.

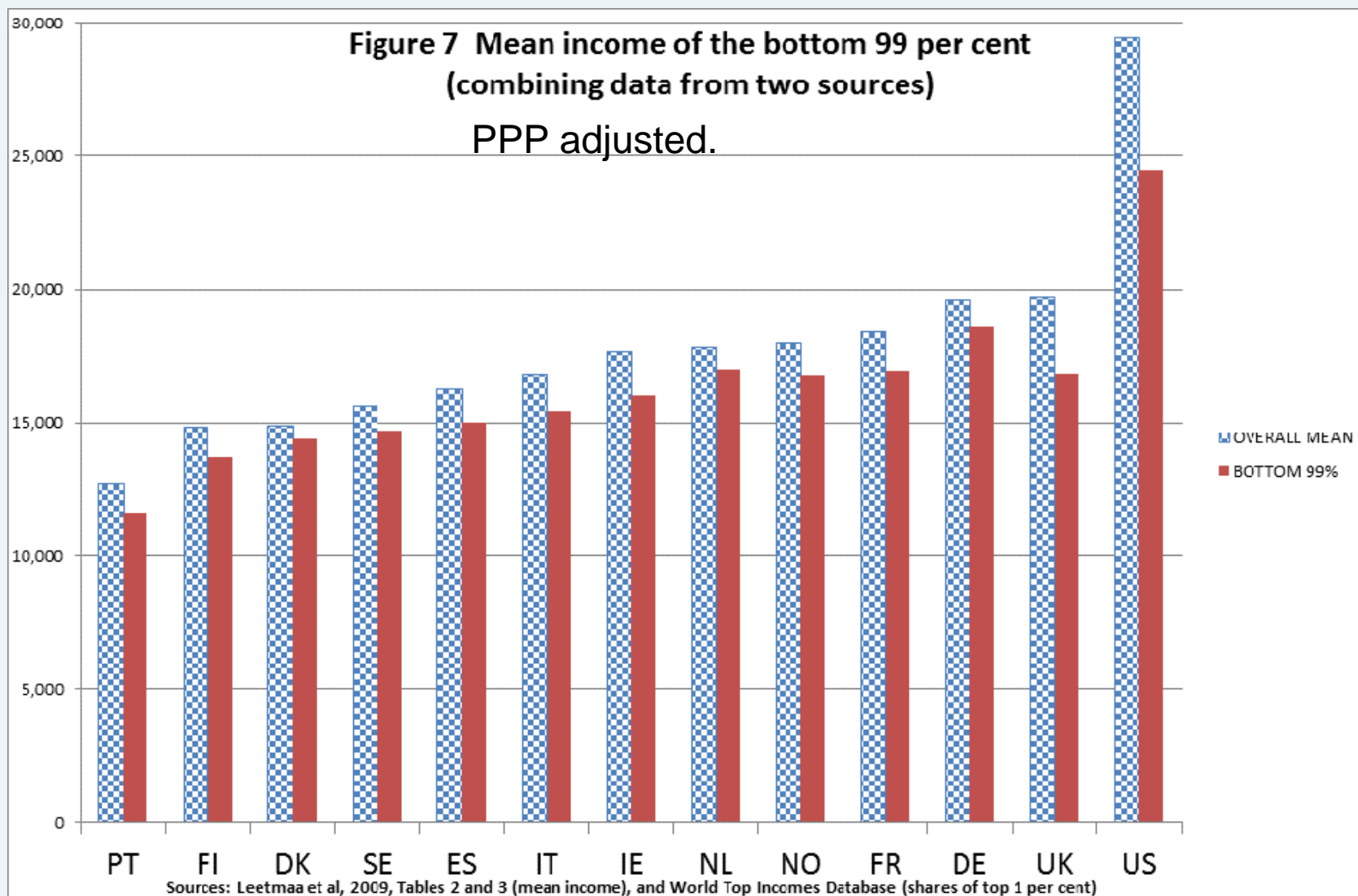
Incorporate inequality into headline income measure; NOT a  
separate indicator. This could be implemented in different ways:  
for example:

- Median in place of mean income;
- Sen's real national income = mean  $\times$  (1- Gini coefficient);
- Mean income of bottom 99 per cent.



Income is adjusted for differences in household size and composition using the modified OECD scale, and expressed at 2009-2010 prices. Households are weighted by their size. No account is taken of within-household inequality. The non-household population are missing.





UK falls from second to fifth when ranked according to mean income of bottom 99 per cent, gap with US narrowed.

- Immediate changes can be made in the measurement of economic growth, to bring it closer to the experiences of individual citizens (Stiglitz recommendations 1 and 2);
- Household *spendable income* tells a different story about changes in UK over past decade;
- Measures should incorporate distribution (Stiglitz recommendation 4); not isolate inequality as separate element;
- *Inequality-adjusted growth* tells a different story about long-run growth and about cross-country differences.