

Wrapping-up: what have you learned?

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# Wrap up, Lesson1 : General introduction

- GDP as the tip of the SNA iceberg
  - SNA: double-entry, monetary and linked accounts covering full economic system and full production/income/saving/ wealth cycle
  - GDP measures the size of (market) production, it does not measure either economic or total welfare
  - While GDP growth in the western world since XIXth century was a defining moment of human history, long tradition of economists thinking ‘beyond the economic problem’ (J.S. Mill, J.M. Keynes)
  - Disconnect between GDP and various aspects of human well-being, both at a given point in time (‘no country has it all’) and over historical periods (e.g. education, health, democracy)
- What is well-being?
  - It is about people and societies, averages and inequalities, today and tomorrow, objective and subjective aspects

# Wrap up, Lesson 2. Individual Well-being

- *Homo economicus*
  - maximise utility in the space of consumption goods based on preferences that satisfy various axioms
- *Homo sapiens*
  - Behavioural economics, intuitive/reflexive systems, rules of thumbs
  - Differences among goods, relative income hypothesis, social comparisons, quest for status
- Functionnings and capabilities (opportunity set)
  - Doings & Beings, multidimensional, non substitutability
  - Development as process of expanding choice over intrinsically valuable domains
- Multi-dimensional human well-being
  - Universal dimensions
  - Selection of indicators (ethical judgments implicit in them)<sub>3</sub>

# Lesson 3: Subjective well-being

- One of the many dimensions of people's overall well-being (i.e. complement rather than substitute of other dimensions)
- Subjective well-being is multi-dimensional
  - Life evaluation; Affect; Eudaimonia
- Validity of SWB measures
  - Face validity (response times, non-response rates)
  - Convergent validity (Duchenne smiles, bio-physical correlates)
  - Construct validity (drivers)
- Drivers of well-being
  - Different for different dimensions of SWB
  - Drivers of life evaluation closely mirror the dimensions derived from the Sen/capabilities framework adopted for the BLI.
- Problems with SWB measures
  - Easterlin paradox (observed effect real, explanation unclear)
  - Adaptation (neither complete nor universal)
  - Cultural response bias (very little evidence of a large effect)

# Wrap up, Lesson 4. Inequalities

- Social welfare function allow moving from individuals to community, based on judgement on weights given to people across the distribution
- Inequalities affect all dimensions of life
  - Related (social gradients) but also relative independence
  - National and global inequalities (income space)
- Drivers of income inequality
  - Kutznets curve
  - Race between education and technology/globalisation
  - Complementary factors (redistribution, market power, rent extraction, changes in 'rules of the game')

# Wrap up, Lesson 5: Sustainability

- The ‘capital metaphor’
  - Stocks deliver benefits over time (Fisher’s income), are affected by today’s decisions, takes time to rebuild when destroyed
- Different types of capital
  - Economic, human, social and natural
  - What they have in common and what differentiate them
  - Measuring capital: stocks, flows and risks
- Weak and strong sustainability
  - Substitutability, tipping points
- Implications for policy
  - Time discounting, externalities/public goods, risks/insurance

# Lesson 6: Using well-being metrics in national and international policies

- Motives for adopting a well-being framework
  - Incremental improvement to existing policy (e.g. UK, New Zealand)
  - Significant issues in direction of policy (e.g. Israel)
- Using well-being indicators in national policy
  - Alignment (e.g. Israel, building agreement across government on desired outcomes)
  - Analysis (e.g. New Zealand, identifying desired goals ex ante; UK, evaluating policy impact)
  - Accountability (e.g. UK, informing the voting public)
    - *New, no established best practice, but important to reconnect people with policy-makers*
- Big drive of national experiments: UN 2030 Agenda
  - Universal, integrated, transformational
  - Needs to be adapted in line with national priorities