

From Measuring Production to measuring well-being

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What you measure affects what you do

- Which is why accounting/accounting systems are so important
- Bad accounting played a big role in the current economic crisis
 - Partially related to failures of market prices
 - But also partially related to accounting rules
 - Banks were allowed to move things off balance sheet
 - We weren't measuring what we should be measuring

- GDP was created to measure market—
outgrowth of Keynesian economics
- But overtime evolved into a measure of well
being
- Never intended to be a measure of well-being
- And is increasingly facing problems even as a
measure of market production

- Large number of econometric studies analyzing determinants of economic performance
 - But if the measurement of performance is flawed, then inferences drawn from such measures is at risk of being flawed
 - US appeared to be doing well before the crisis
 - 40% of profits in corporate sector—phony
 - 30-40% of investment was in real estate sector—bubble prices
 - Markedly different views of “good” performance provided by UNDP HDI indicator at GDP per capita

- Accounting can be viewed as part of the economics of information
 - Part of our information system that enables us to make appropriate decisions
- Example: every firm takes into account depreciation of capital
- But national income accounting doesn't take into account depletion of natural resources/degradation of environment

Why the International Commission?

Two concerns:

1. Numbers didn't seem to reflect individual perceptions of what was going on
 - Leading to mistrust of government
 - Example: in US, GDP per capita has been going up year after year (until 2009), but most families were actually worse off, year after year
2. Government given conflicting objectives
 - Should it maximize GDP
 - Or should it pay attention to environment
 - Some of these conflicts are “fake” —would disappear with appropriately defined measures

Three Working Groups

- Traditional problems with income measurement
 - Many of these problems have been long recognized
 - Government
 - Quality adjustments
 - But their significance has grown
- Assessing well-being
 - New tools allow better assessment
 - Often marked discrepancies with GDP
- Sustainability
- Cross cutting issue: income distribution

Single Indicator or Dashboard

- Clear that one could not construct a single indicator that would summarize all the relevant information
- Especially since some prices might not be reliable
- Challenge—find a small set of indicators that provide a good picture of how well the economy is doing

Traditional measurement problems

- In public sector, measurement of output by input
 - Implicit assumption about productivity
 - increasing size of public sector meant that this is an increasingly important problem
 - Some European countries have already begun to tackle the problem
 - Difficult—not just years of schooling; need measure of quality

Health care sector

- Large parts publicly provided; other parts prices distorted
- Again, tend to measure output by input
- Have some output indicators (life expectancy, etc)
- US spends more than others, outcome poorer
 - Would like to measure “value added” —perhaps Americans are inherently not as healthy as those in other advanced industrial countries
 - More likely explanation: economic and social system leads to patterns of living/consumption that is less healthy
 - Increasing problem of obesity
 - Fast foods, stress
 - Then medical system is “undoing” damage caused by other parts of the economic system
- Explains a large part of difference in income per capita in US and some European countries

Household Production and Leisure

- Some of increase in measured GDP is shift from (unmeasured) household production to measured market production—not real increase in well-being
 - Reduced time in home may even be reducing investments in children
- Individuals care about leisure
 - But GDP only looks at income
 - Marked changes in leisure/differences in leisure across countries
 - Particularly pronounced over last 30-40 years
 - Again, much of the difference in GDP per capita is related to differences in hours worked
 - France even has higher output per hour

Measurement of Well-being

- We often do not measure what we care about
- Studies show that people care about
 - Connections (Putnam)
 - Work (quality of work and workplace)
 - Negative effects of unemployment cannot be offset just by giving people income
 - Health
 - Education

Sustainability

- What matters is not just consumption today but “lifetime” consumption
- For a society—we care about future generations
- Best way of assessing whether consumption is sustainable is an assessment of what is happening to (total) wealth
 - If wealth is decreasing, then current consumption levels are not sustainable

- Difficulty is getting a full assessment of wealth (especially natural capital) and accurate prices with which to value various assets
 - We need to value the degradation of the environment, the depletion of natural resources
 - What price should we associate with the using up of the carbon space in the atmosphere?
 - We know that the zero price we currently use is wrong
 - Which is why we need to include a few physical indicators in our “dashboard”

National and Global Dialogue

- Part of the objective of rethinking our measurement systems is to generate a national and global dialogue
 - On what we care about
 - Whether what we are striving for is achieving what we care about
 - And whether this is reflected in our metrics