

The Material Wellbeing of Nations

Notes for HUGO Group

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Economic goals

*Consumption is the sole end and purpose of production.
... Wealth is “the degree in which he can afford and
enjoy the necessaries, conveniences, & amusements of
human life.” (Adam Smith, 1776)*

- Compare with typical macro-economic goals:
 - Economic growth (GDP per capita growth)
 - Full employment
 - Price stability (inflation)
 - Current account balance (BoP)
 - Fiscal balance

Stiglitz, Sen, Fitoussi (SSF) Report, 2009

http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf

Commission on the Measurement of Economic Performance and Social Progress”, commissioned by President Sarkozy

The Commission’s aim has been to identify the limits of GDP as an indicator of economic performance and social progress ... to consider what additional information might be required for the production of more relevant indicators of social progress

SSF: 12 Recommendations (incl:)

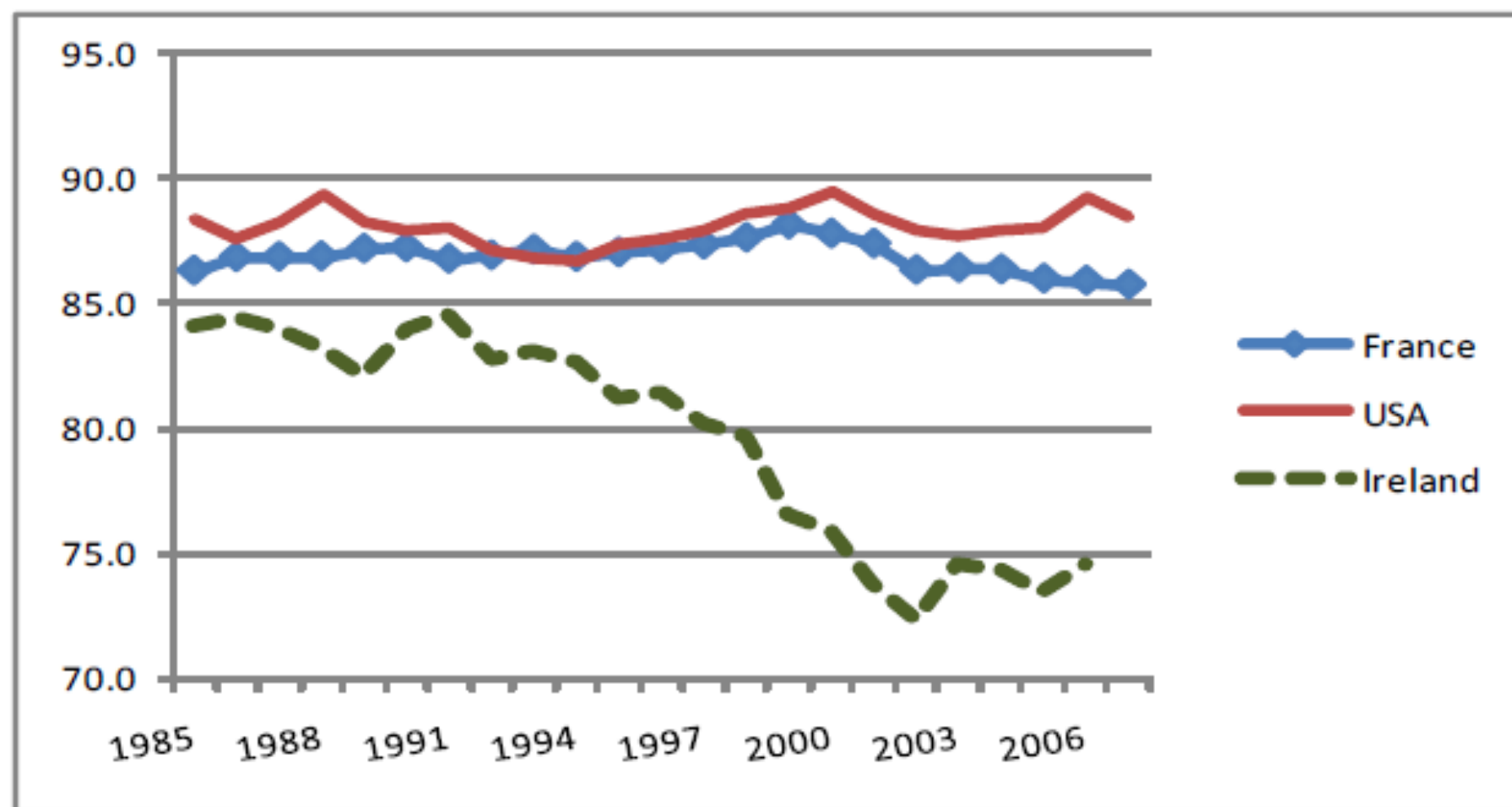
Recommendation 1: *When evaluating material well-being, look at income and consumption rather than production.*

Recommendation 2: *Emphasise the household perspective.*

Recommendation 3: *Consider income and consumption jointly with wealth.*

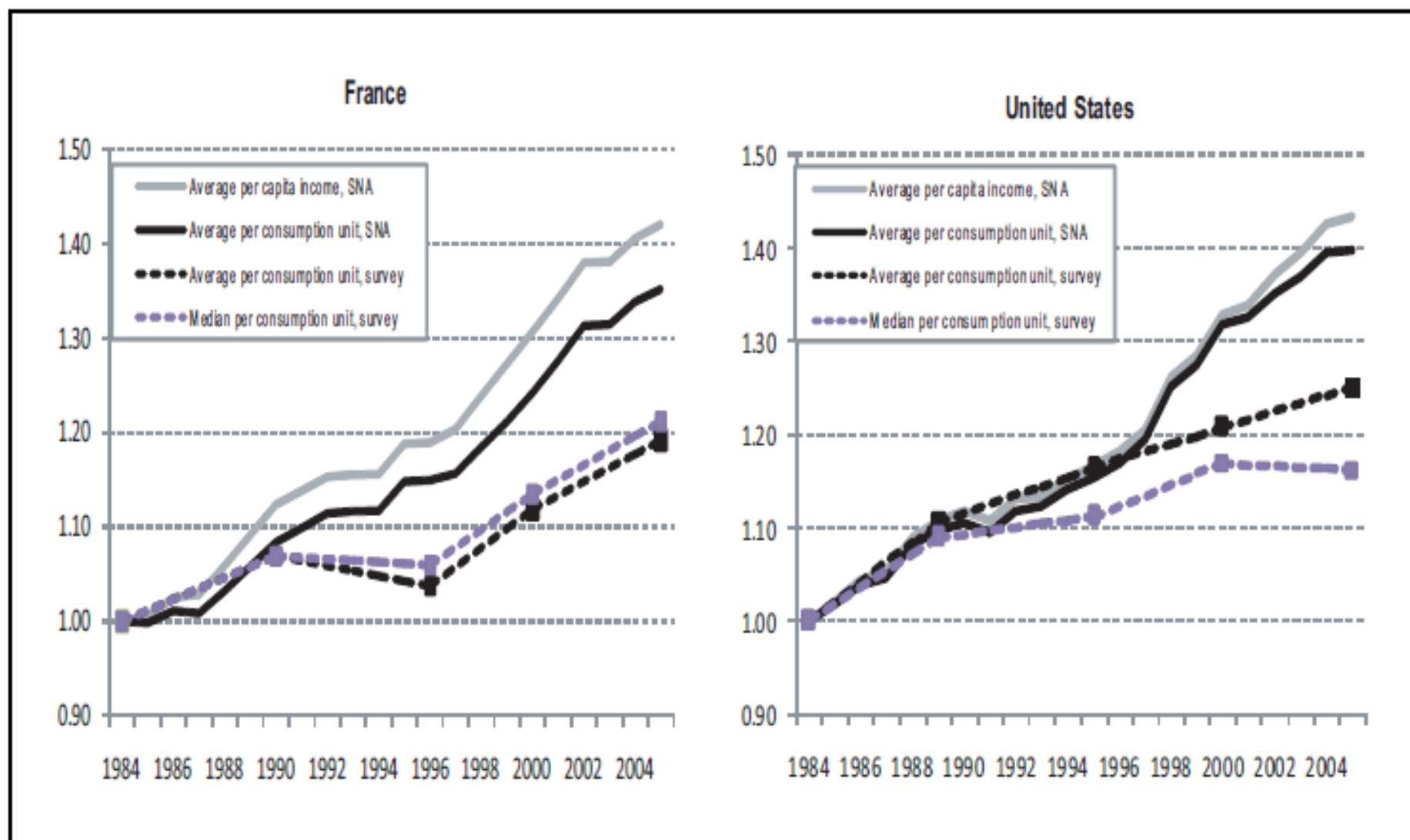
Recommendation 4: *Give more prominence to the distribution of income, consumption and wealth*

Figure 1.1. Net national disposable income as percentage of gross domestic product



Source: OECD Annual National Accounts.

Figure 1.5. Trends in different measures of household disposable income



Source: Computations based on OECD SNA and income distribution data.

Consumption units are households whose size has been adjusted to take account of economies of scale in housing and other costs. This adjustment is of increasing importance as household size shrinks.

Cross-Country Material Wellbeing

Grimes, Arthur & Sean Hyland (2015) *A New Cross-Country Measure of Material Wellbeing and Inequality: Methodology, Construction & Results*, Motu WP 15-09.

Grimes, Arthur & Sean Hyland (2015) *The Material Wellbeing of New Zealand Households* Motu Note #21.

www.motu.org.nz

Approach

- Measures households' actual possessions
- Takes account of:
 - different prices (e.g. including effects of tariffs)
 - cost of housing (poorly done in other measures incl PPP)
 - access to credit to smooth consumption over life
- Uses a very well-sampled survey of households
 - at same stage of life (household has a 15-yr old student)
 - covering many countries across multiple years

OECD's PISA Data

- Programme for International Student Assessment
 - tests 15-yr olds on educational achievement
- Asks supplementary questions on what the student's household has in the house, including:
 - Bedrooms, bathrooms, study place, cars, desk, dishwasher, TVs, computers, internet connection, educational software, cell-phones, artworks, books (dictionary, poetry, classic literature, textbooks)
- Data for 40 countries in 2000, 2009, 2012
 - Data for **800,000 households** (pre- and post-GFC)
- Goods weighted by common set of rental prices

Multiple measures of material wellbeing (MW)

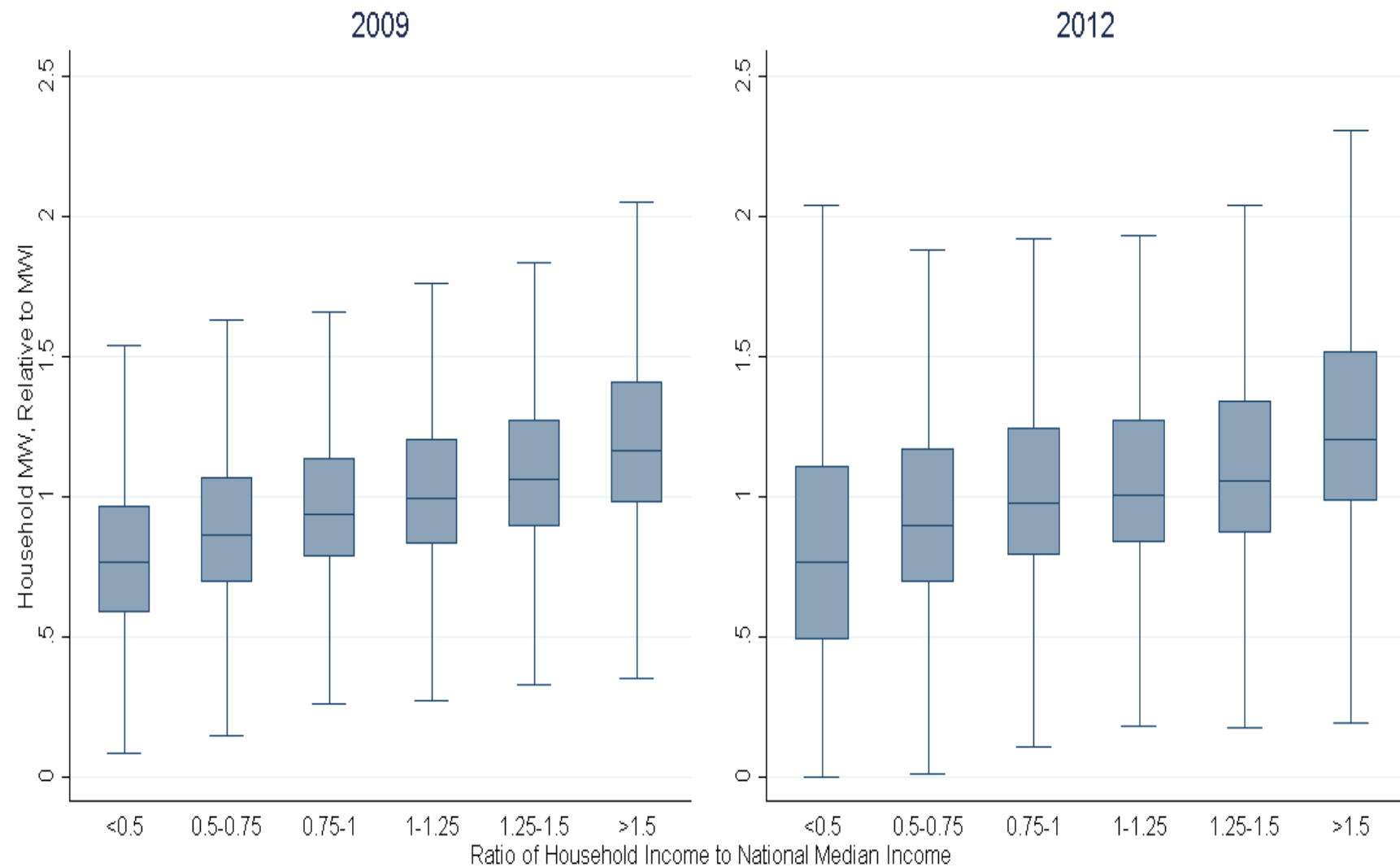
- HMWI: index of household MW
- MWI: index of national average MW
- AIM: index of inequality of MW within country
- IMWI: inequality-adjusted national MW

All measures are equivalised for household size

- MW of the most wealthy is probably understated

Concentrate here on MWI and AIM

HMWI & Household Income across 15 (11) countries in 2009 (2012)



Comparison of MWI and GNI per capita (at PPP)

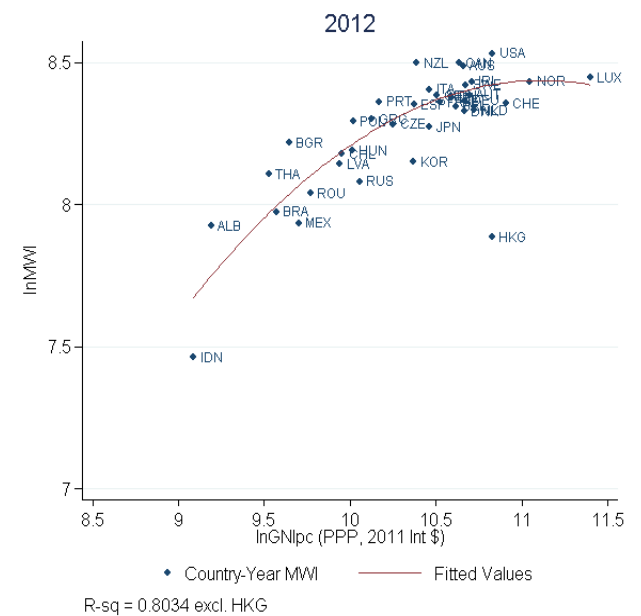
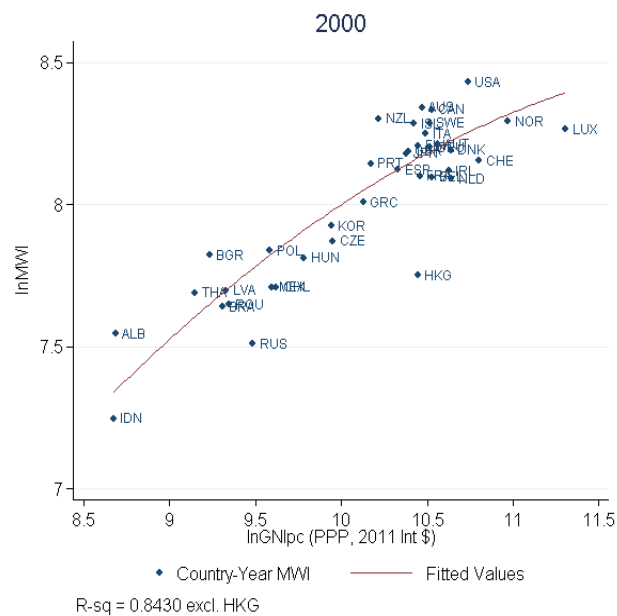
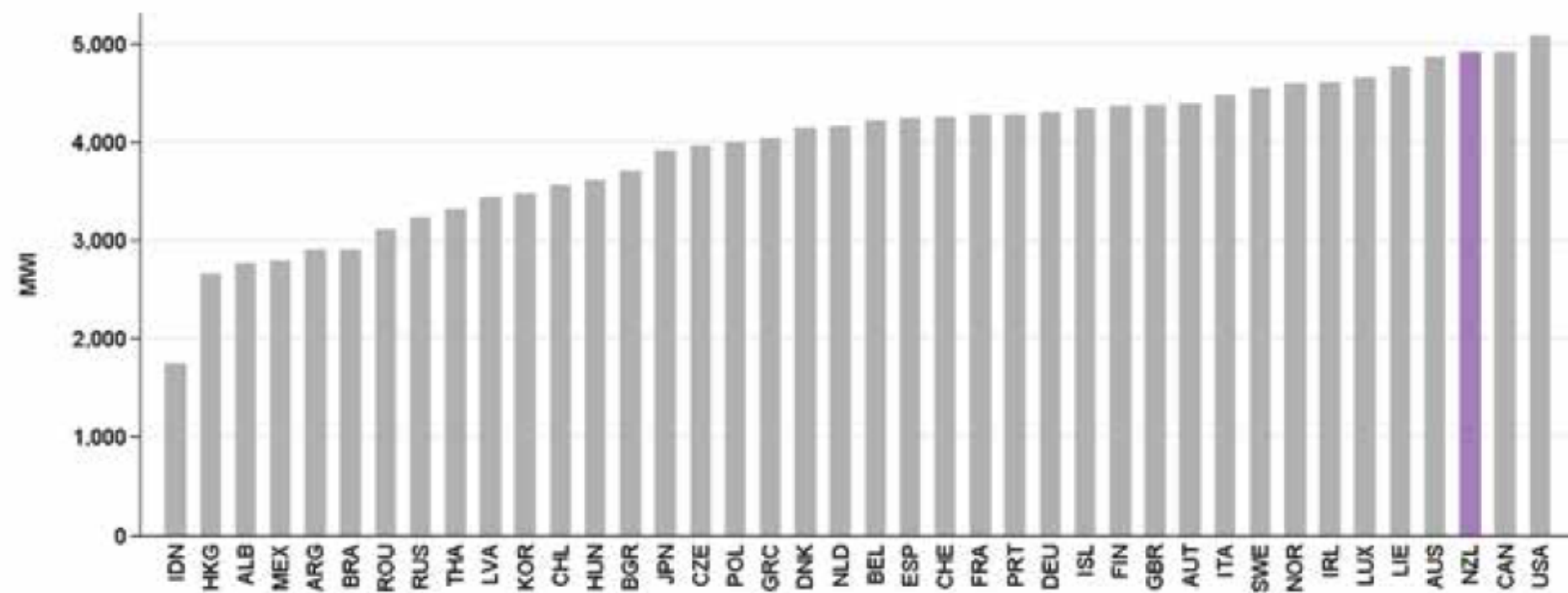


FIGURE 1: Cross-country MWI Levels, 2012



Comparison of MWI and GNI per capita annual growth rates



FIGURE 4: MWI Growth Rates 2000-2012

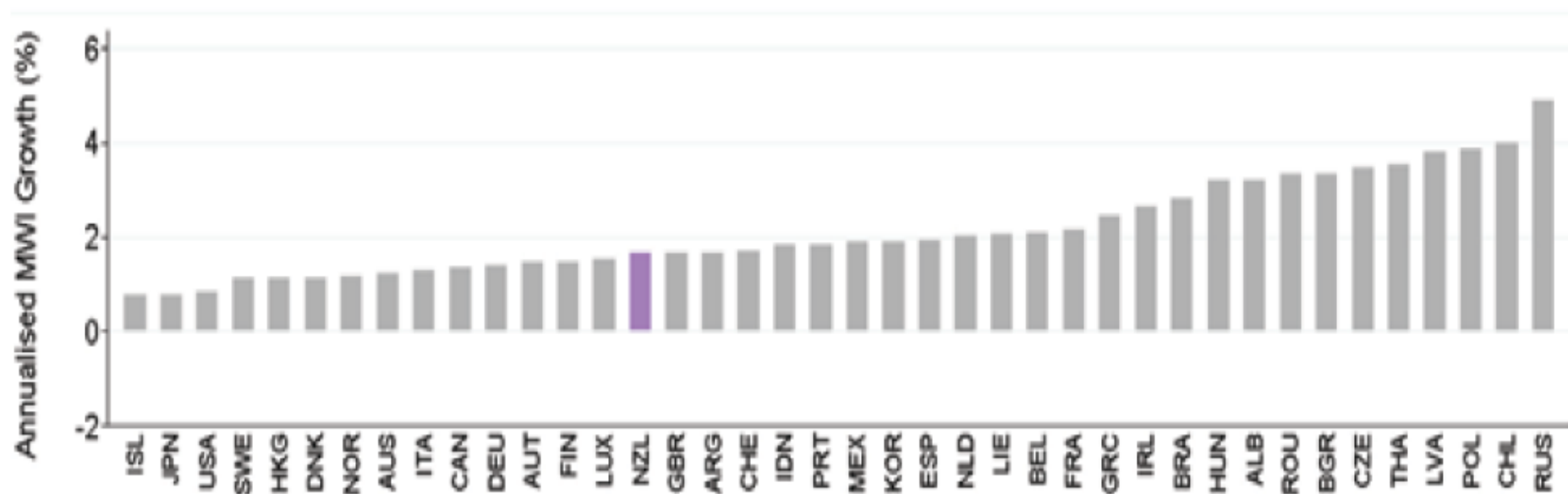


FIGURE 5: Cross-country AIM(1) Levels 2012

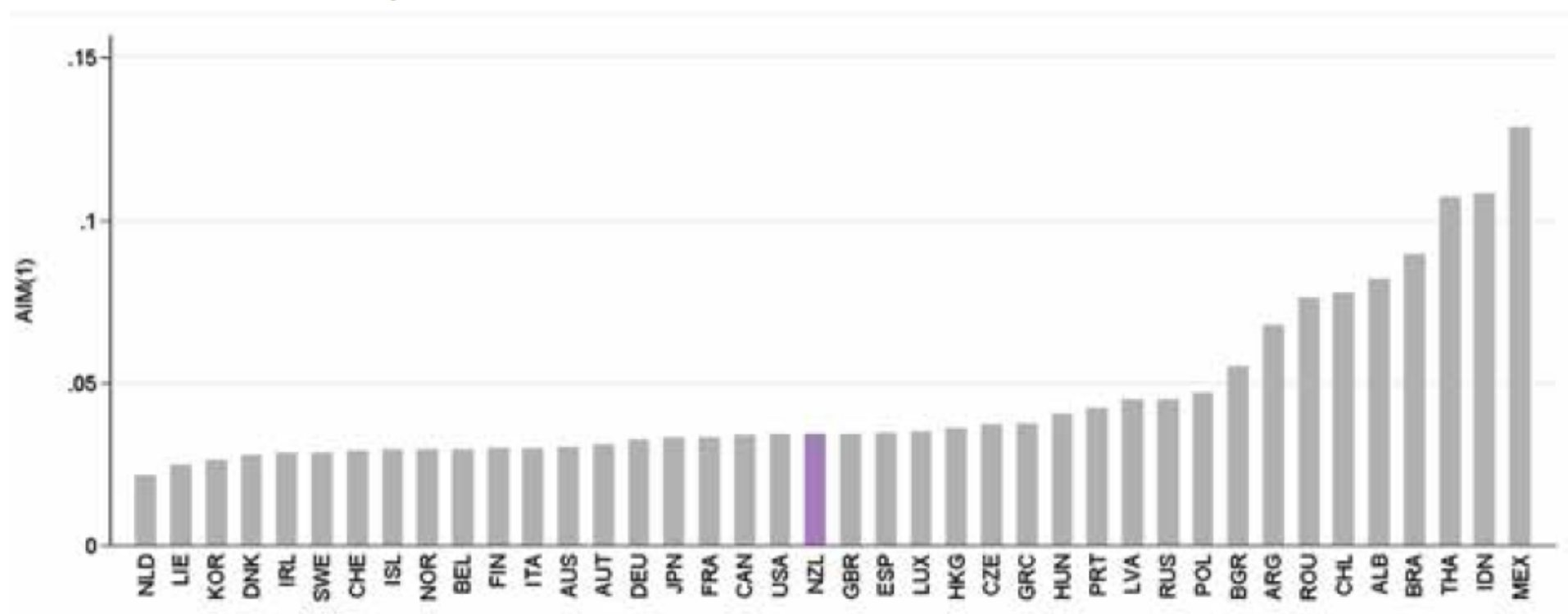
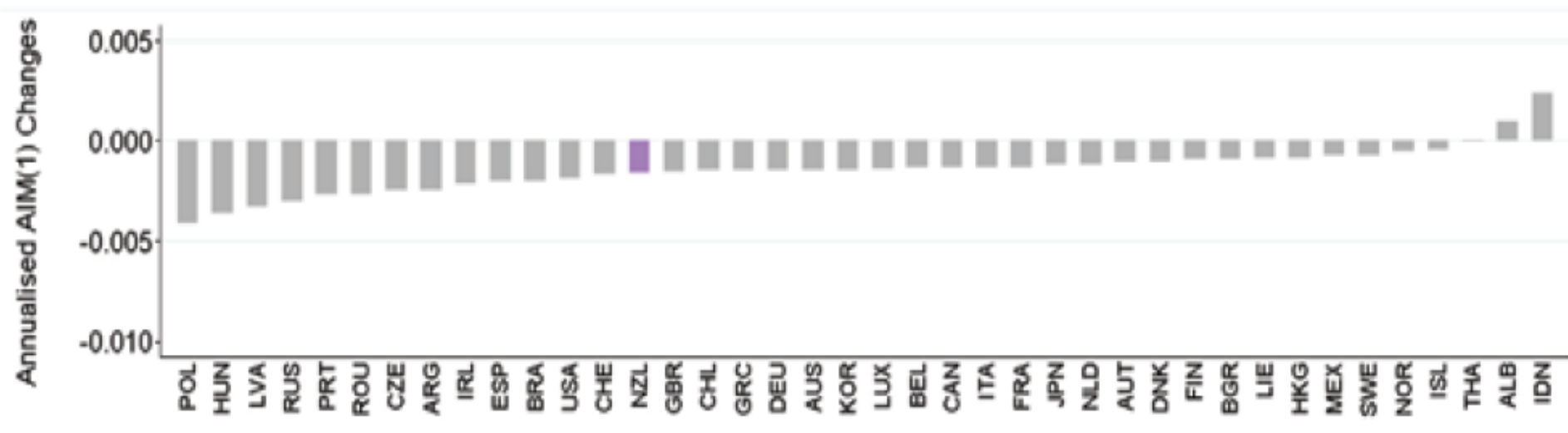
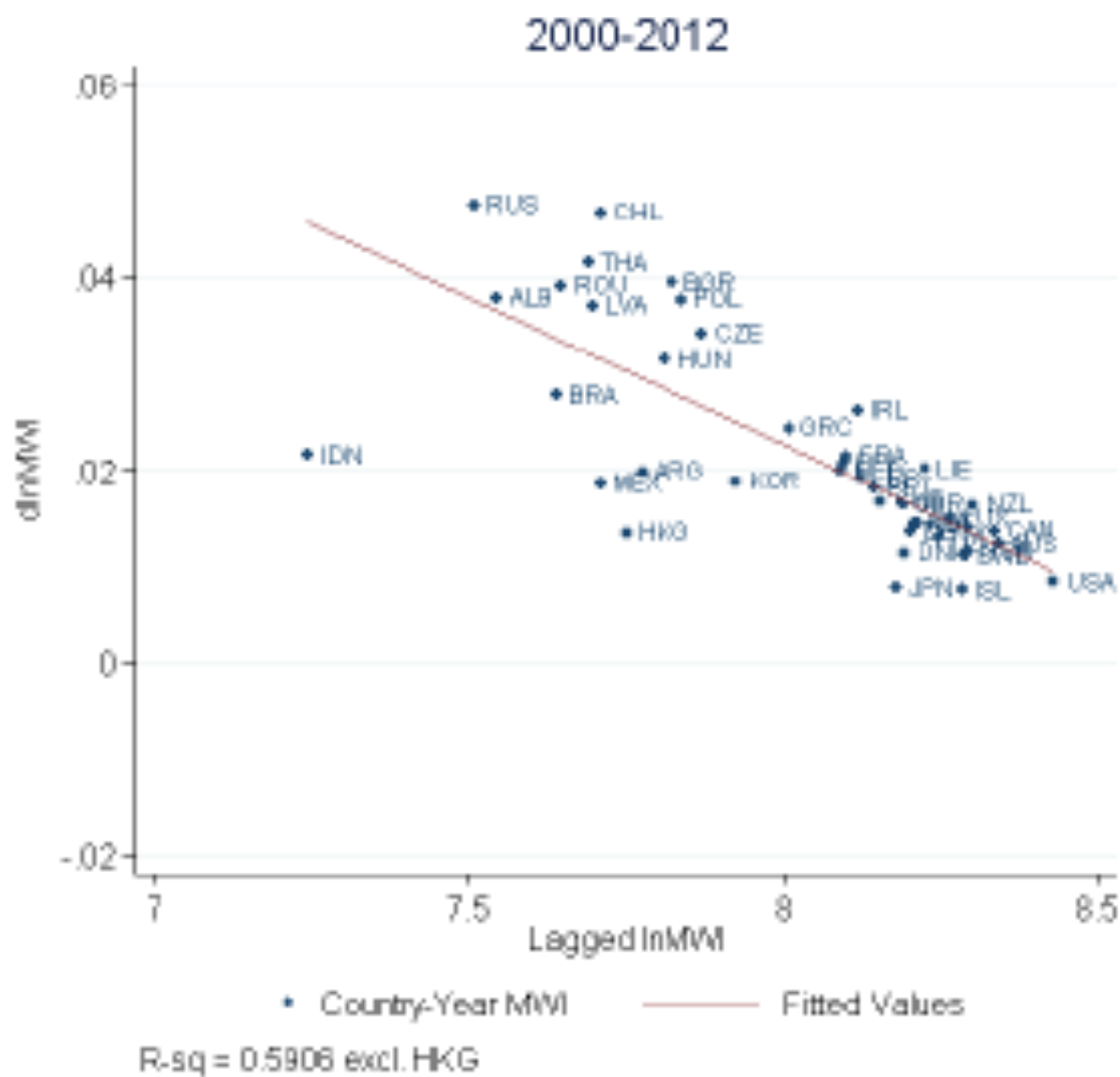


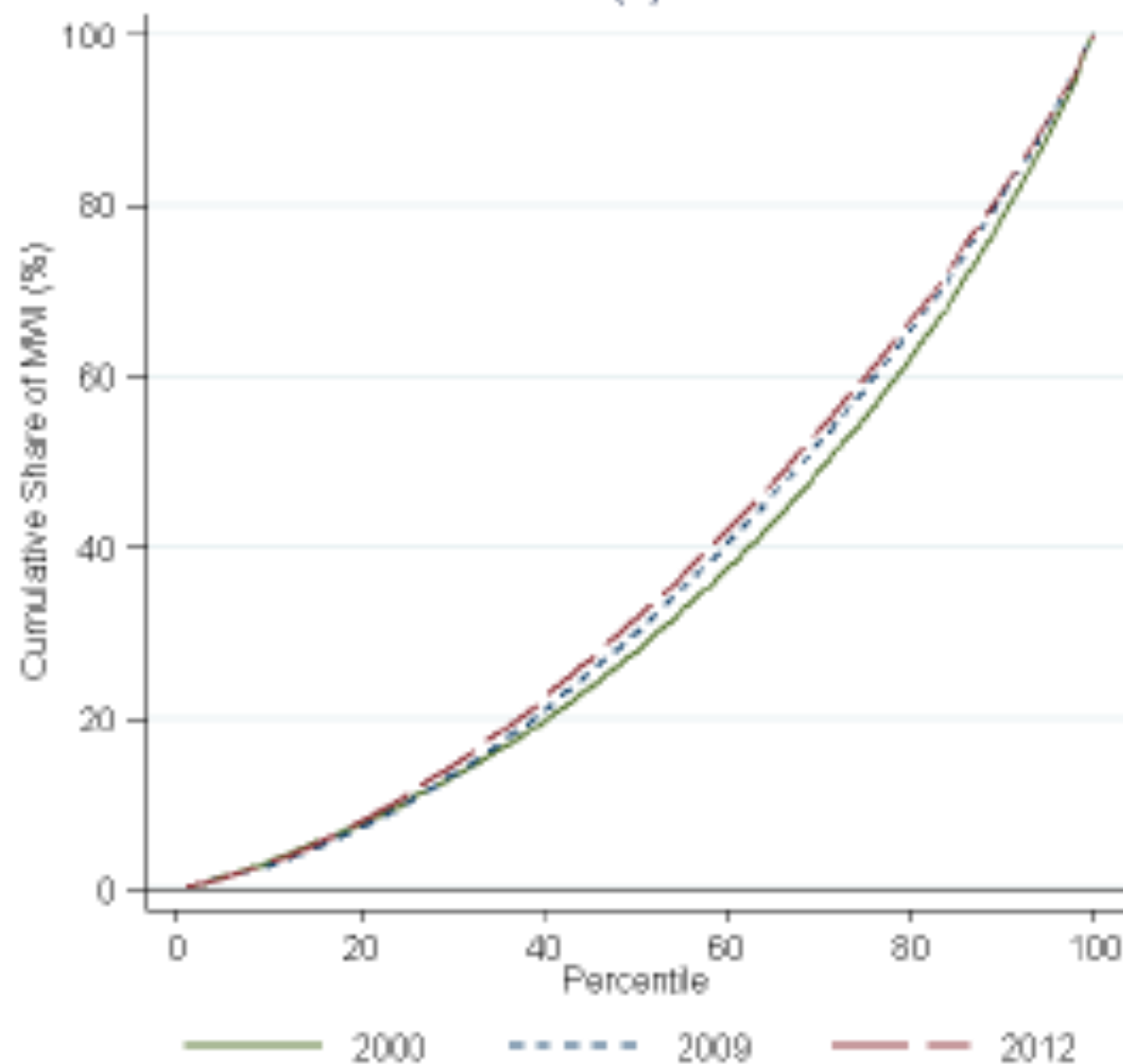
FIGURE 8: AIM(1) Changes 2000-2012



International convergence



Lorenz Curve: Cumulative share of world (40 country) material possessions
(becoming more equal over time, consistent with world incomes – Milanovic, 2012)



OECD Better Life Index

<http://www.oecdbetterlifeindex.org/>

Data available for all OECD countries

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