



GDP & Beyond: Happiness or Economic Welfare?

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SABEW Fall Workshop
Concurrent Session
October 1st, 2010

Long Standing Issue

- Kuznets original concerns regarding the scope of the original accounts
- *"Too much and too long, we seem to have surrendered community excellence and community values in the mere accumulation of material things. Our gross national product, if we should judge America by that, counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors...*

Yet the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play...it measures everything, in short, except that which makes life worthwhile. And it tells us everything about America except why we are proud that we are Americans."

**-- Robert F. Kennedy Address, University of Kansas,
Lawrence, Kansas, March 18, 1968**

Long Standing Issue

- *“The success of our economy has always depended not just on the size of our gross domestic product, but on the reach of our prosperity; on the ability to extend opportunity to every willing heart -- not out of charity, but because it is the surest route to our common good.”*

*-- President Barack Obama, Inaugural Address,
Washington D.C., January 20, 2009*



Measuring Economic Progress

- *“The big question concerns whether **GDP** provides a good measure of living standards. In many cases, **GDP** statistics seem to suggest that the economy is doing far better than most citizens' own perceptions. Moreover, the focus on **GDP** creates conflicts: political leaders are told to maximize it, but citizens also demand that attention be paid to enhancing security, reducing pollution, and so forth - all of which might lower **GDP** growth.*

*The fact that **GDP** may be a poor measure of well-being, or even of market activity, has, of course, long been recognized. But changes in society and the economy may have heightened the problems, at the same time that advances in economics and statistical techniques may have provided opportunities to improve our metrics.”*

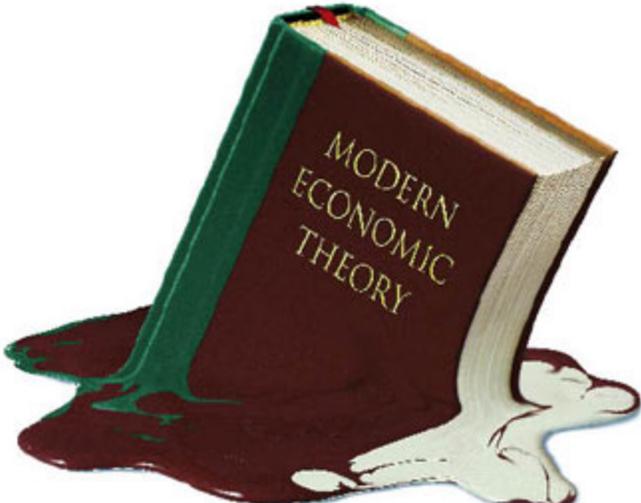
-- Joseph Stiglitz, The Economist Voice, September, 2009

Bubbles And Measuring Sustainability

The Economist

Britain agonises about Afghanistan
The rot in Japan's governing party
Europe's energy insecurity
Goldman Sachs's record profits
Summer camp for atheists

JULY 18TH-24TH 2009 Economist.com



Where it went wrong-and how the crisis is changing it

The McGraw-Hill Companies

APRIL 27, 2009 | BUSINESSWEEK.COM

BusinessWeek

WHAT
GOOD
ARE
Economists
ANYWAY

TECH LOOKS
POISED TO LEAD
A RECOVERY

CREATIVE
DESTRUCTION
AT PEPSI

BIOFUELS: WHY
BIG OIL MAY BE
THE BIG WINNER

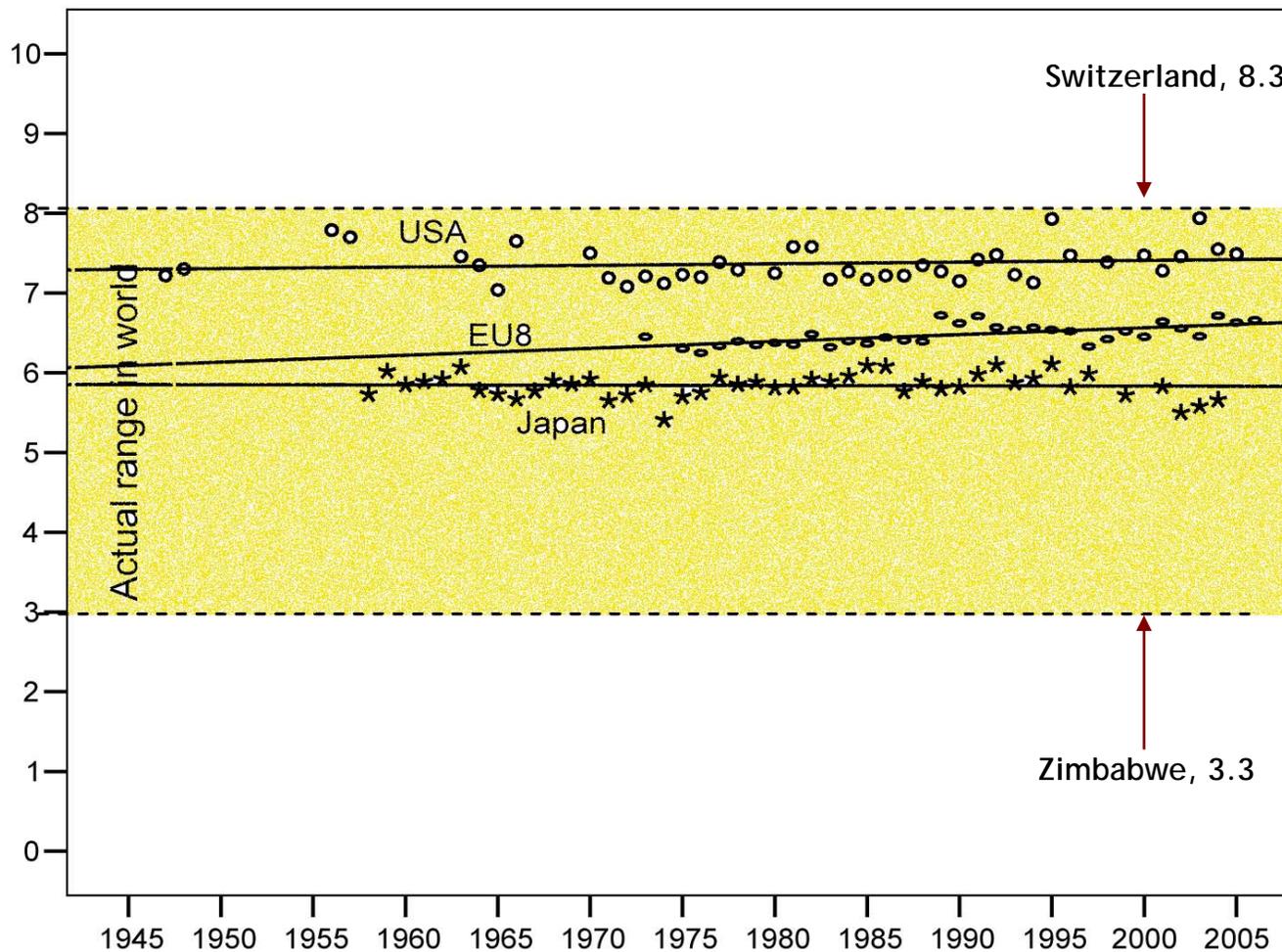


Subjective Well Being

- Endlessly fascinating and timely subject matter for study; however, for official statistical offices:
 - other low hanging fruit more applicable to the national accounts framework:
 - Non-market accounts: Household production, human capital, education
 - pressing measurement issues revealed by recent financial crisis are first priority
- Evidence from cross-section, cross-country, and time series data suggest a lot of adaption toward some common level of happiness

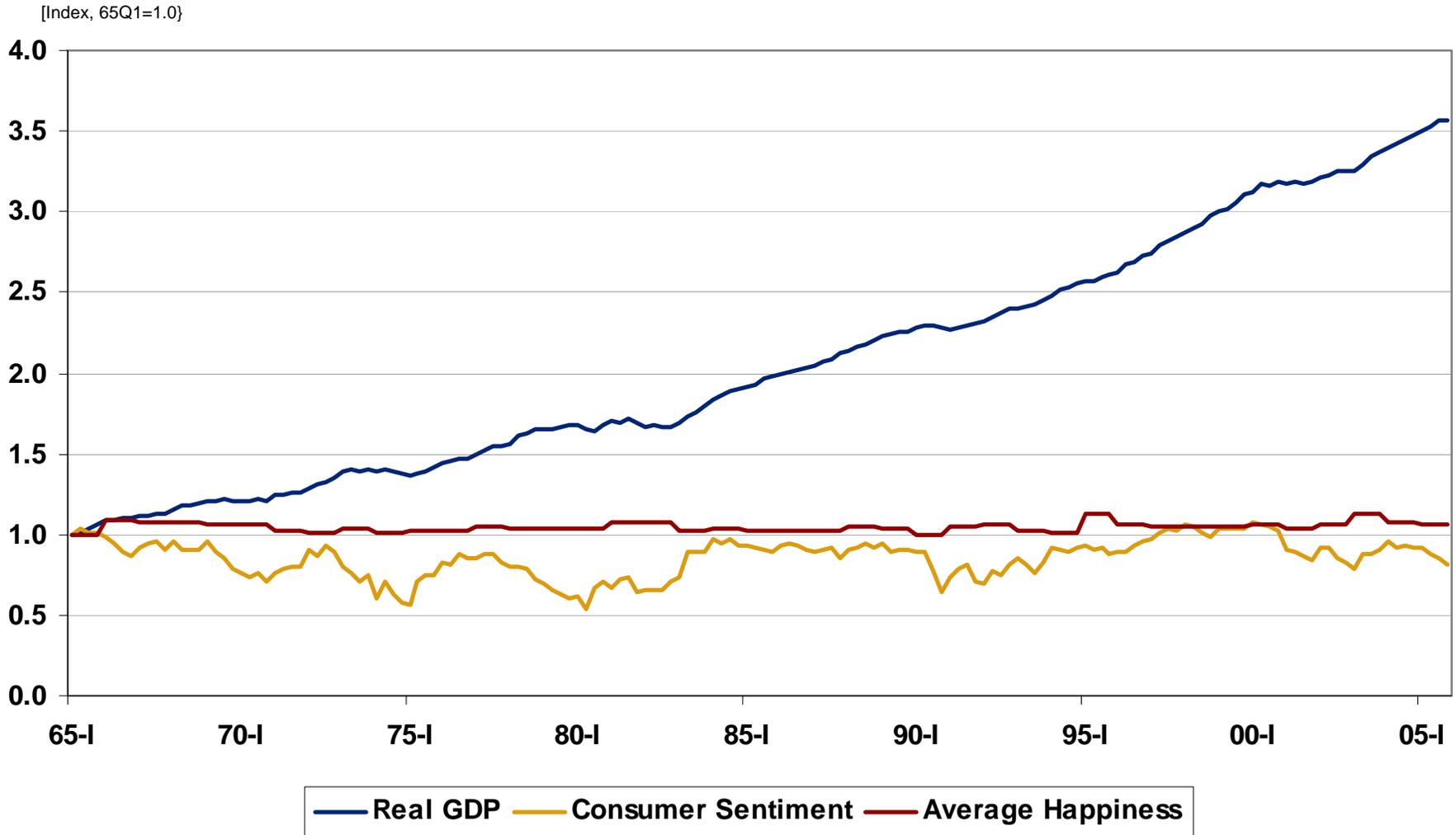
International comparisons of happiness

Trend Happiness in the EU8, U.S. and Japan



Source: Veenhoven, Ruut, "Measures of Gross National Happiness," prepared for presentation at OECD conference on Measurability and policy relevance of happiness.

Happiness and GDP

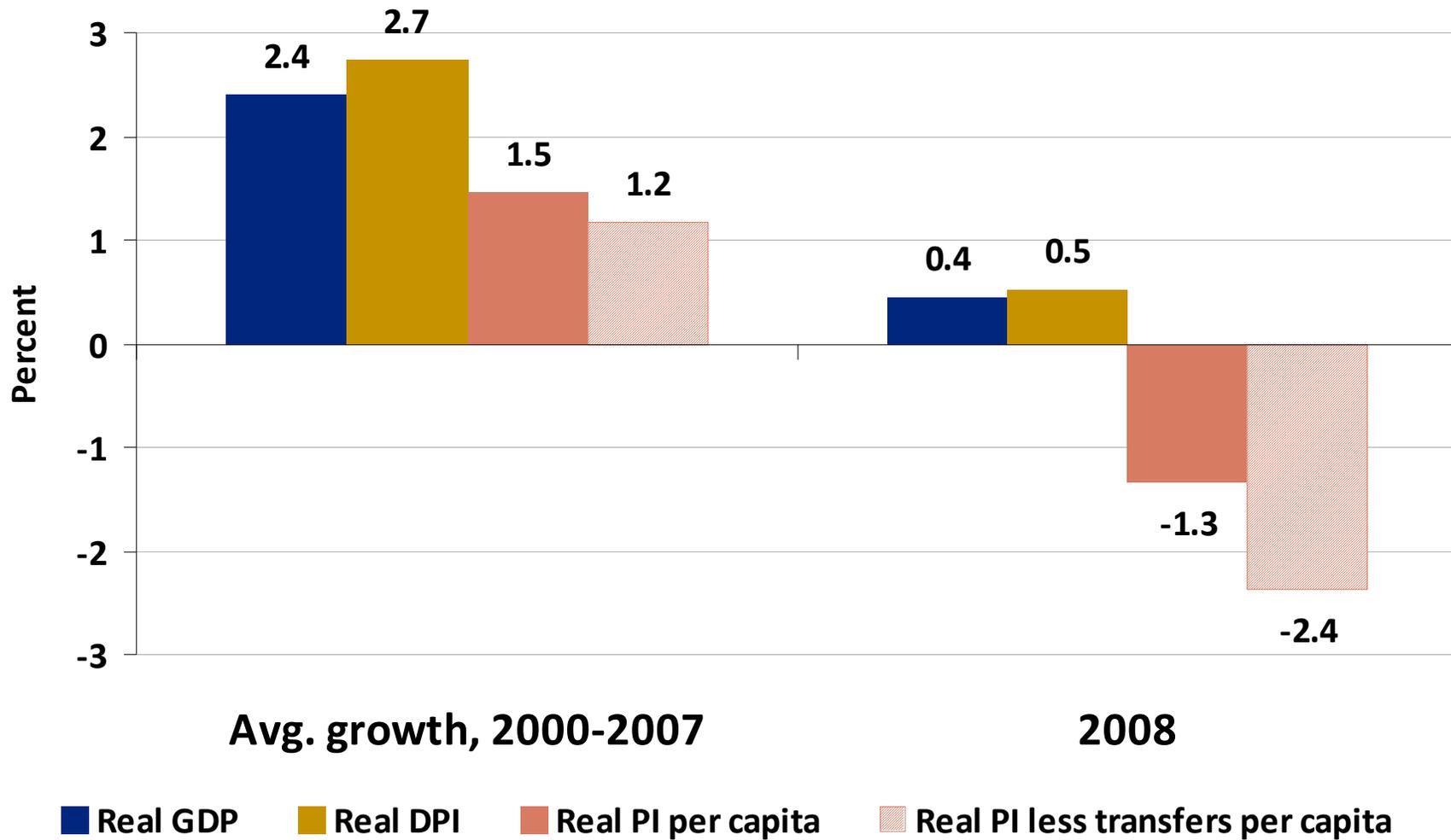


Source: BEA, University of Michigan, Veenhoven, R., World Database of Happiness, Distributional Findings in Nations

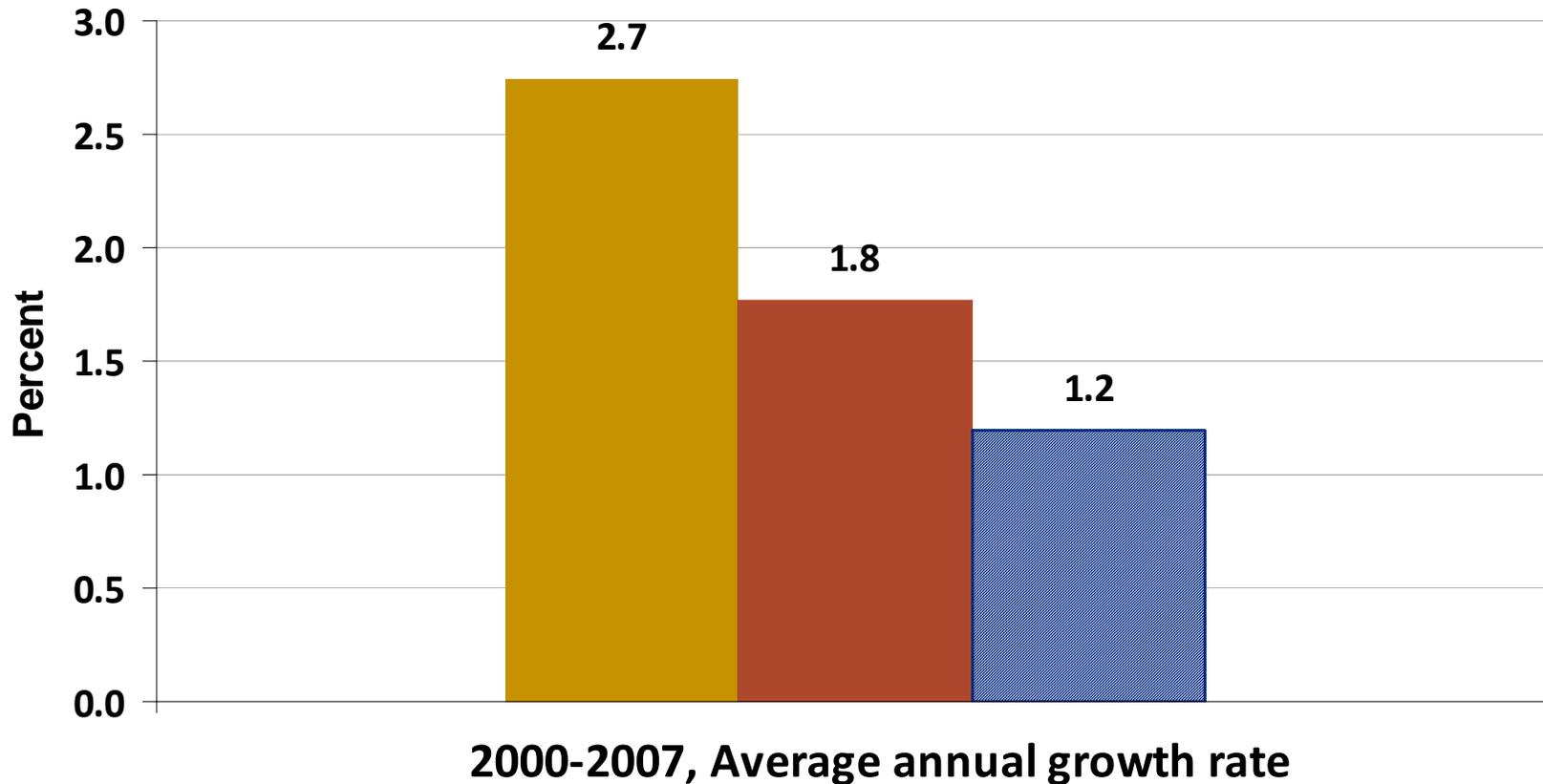
What can we do within the GDP Accounts: Economic progress & sustainability

- Measures of Economic Progress:
 - Households
 - Regions
 - Business
- Measures of Sustainability:
 - GDP
 - Investment
 - Asset Prices
 - Leverage

Household Income: Alternative Estimates



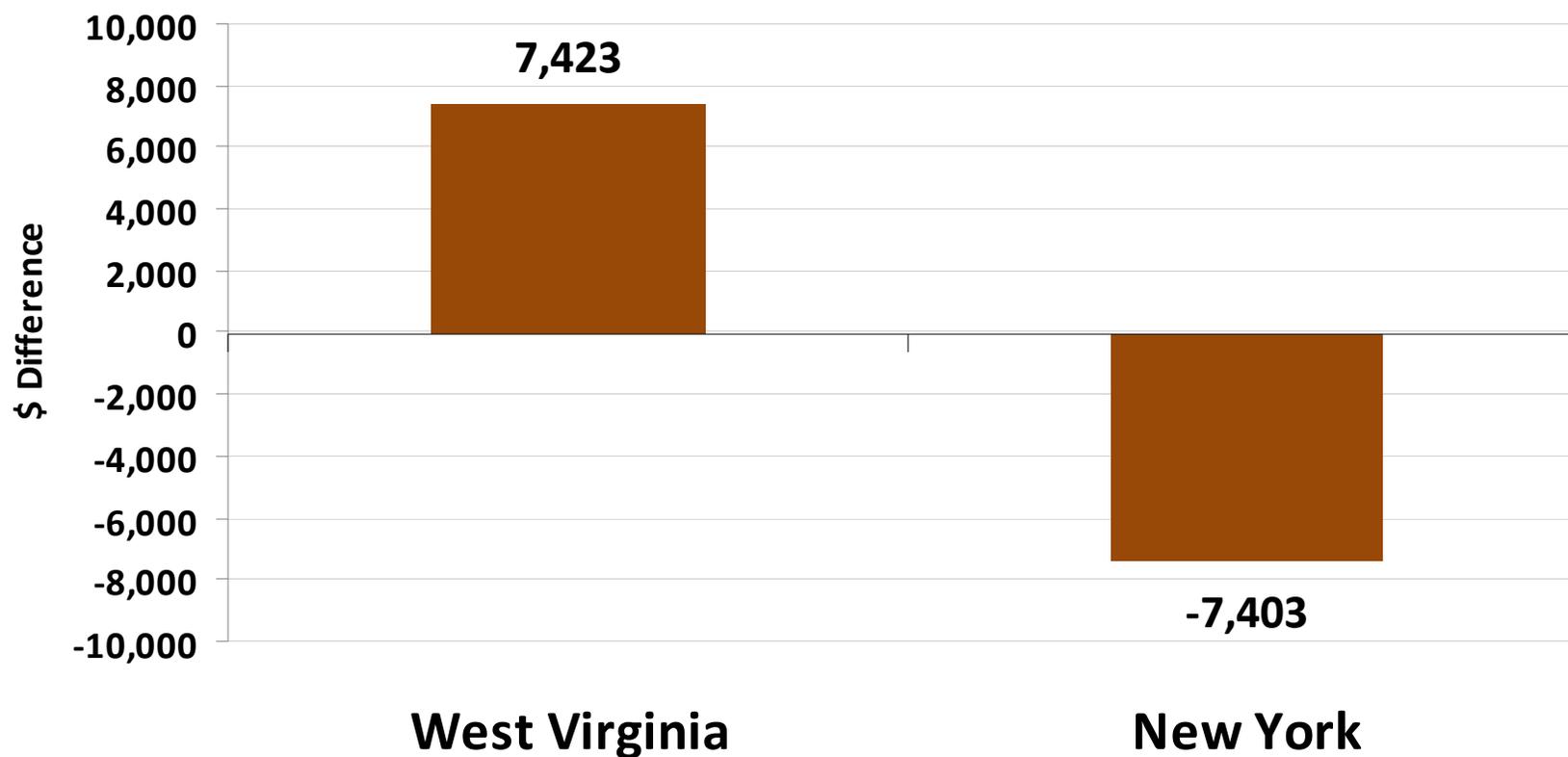
Reconciling Measures of Income



■ Real DPI, BEA ■ Real DPI per capita, BEA ■ Real median taxpayer income less taxes

Regional Household Income

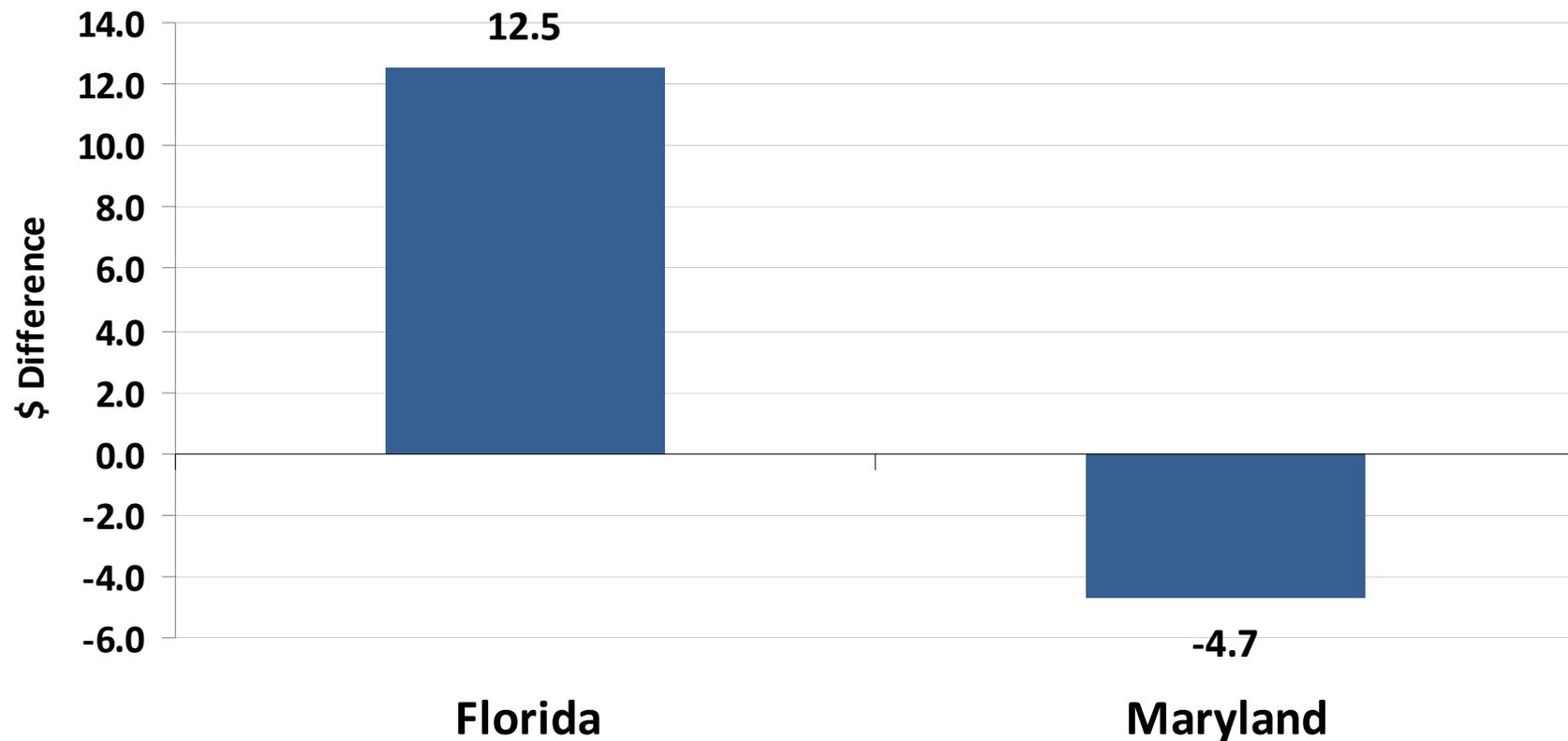
Adjusting for regional price differences



Source: BEA Regional data.

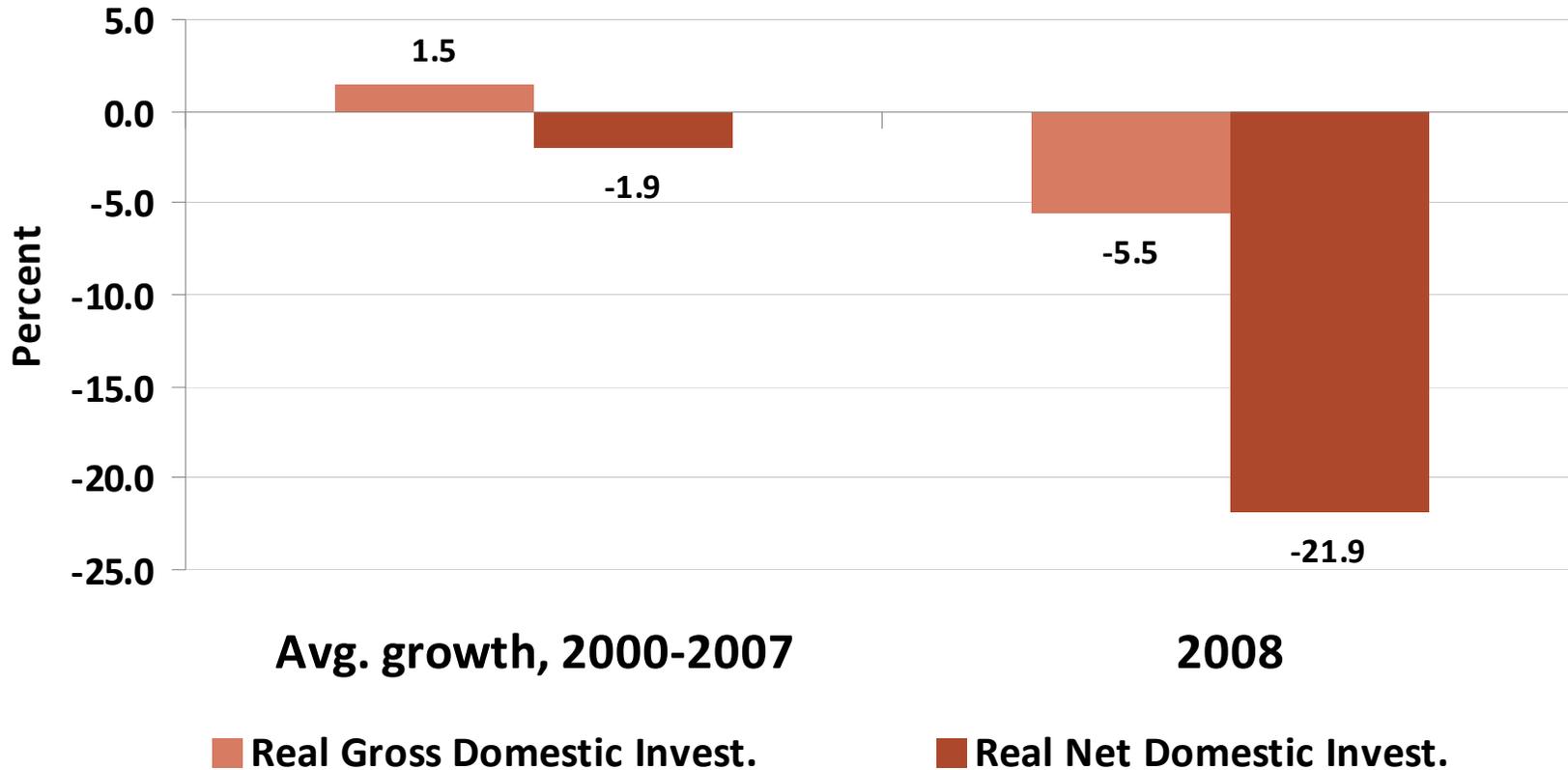
Regional Household Income

Impact of classifying retirement income in state of residence



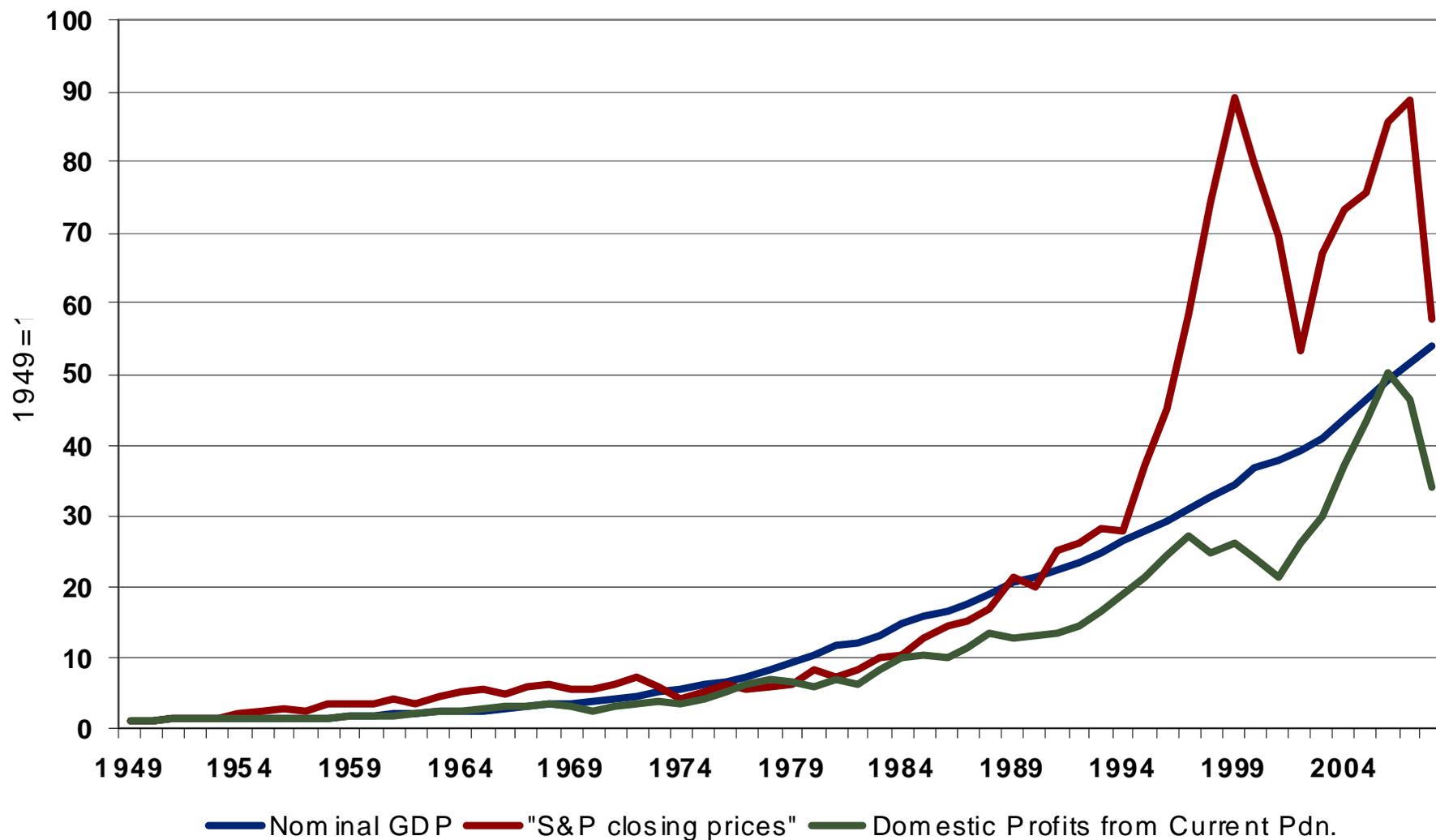
Source: BEA Regional data.

Business Income: Real Gross & Net Domestic Investment

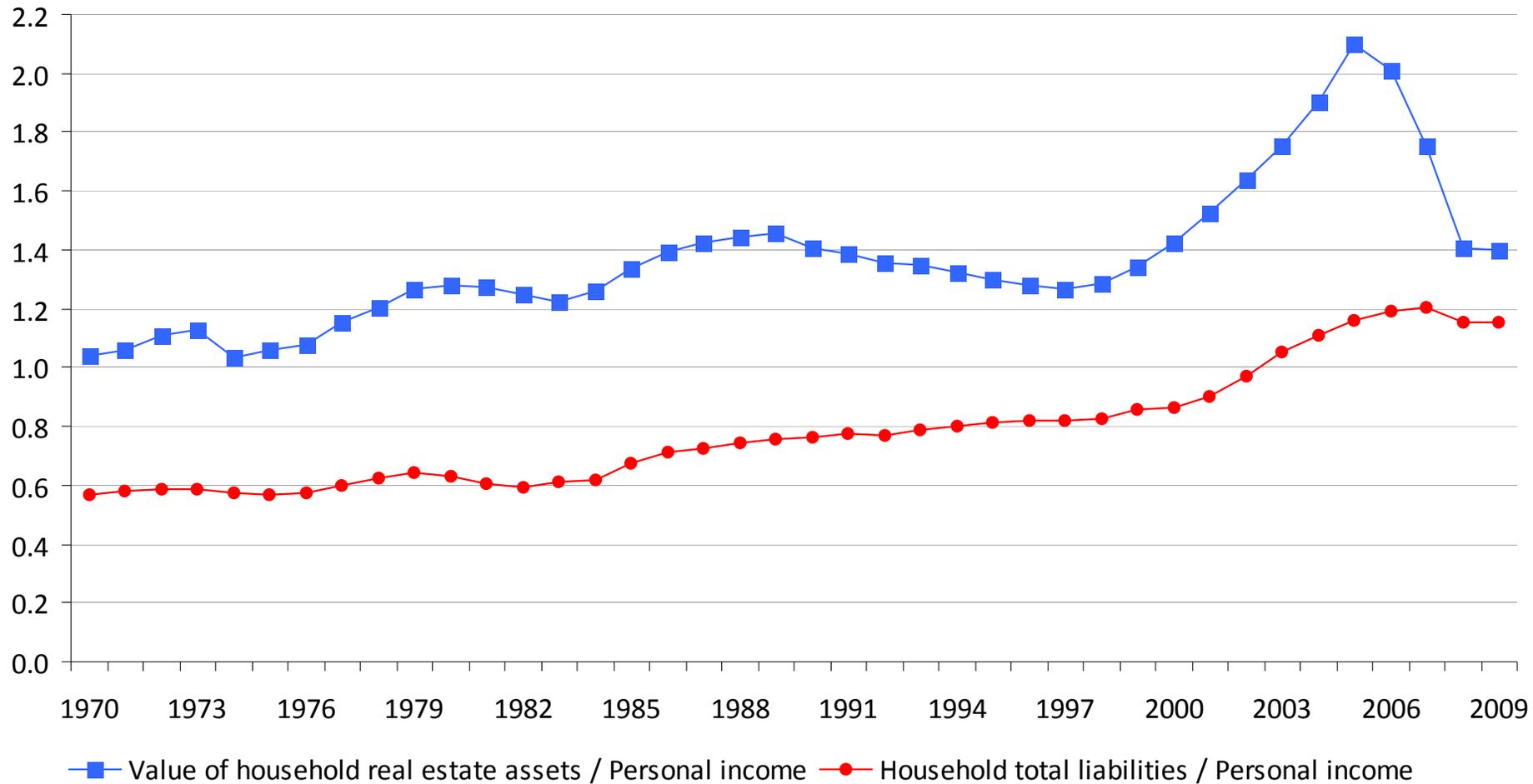


Source: BEA NIPA data

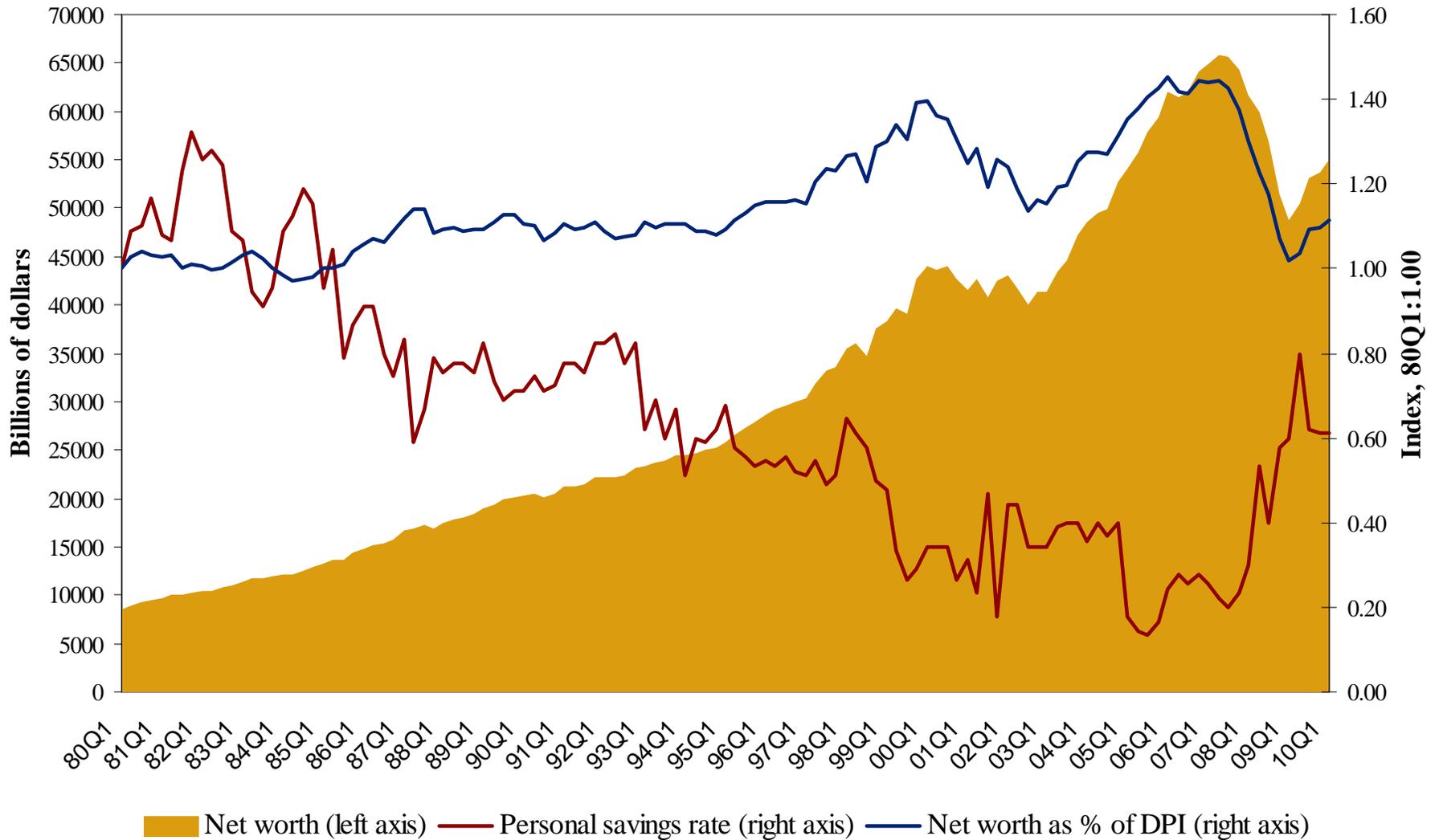
Equity prices, NIPA profits & GDP



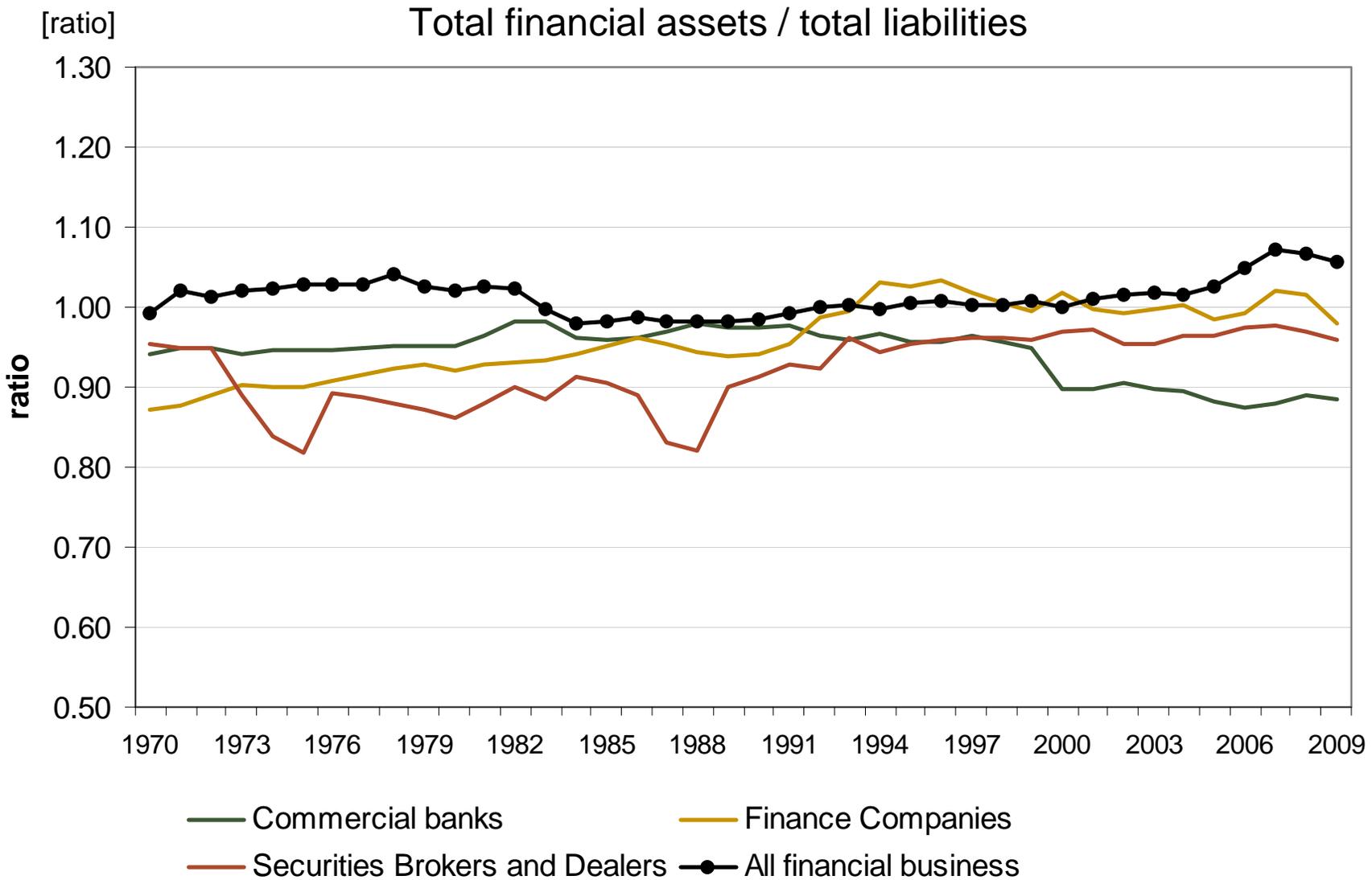
Housing & Personal Income



Household Asset Values & Savings



Financial Business Sector Leveraging



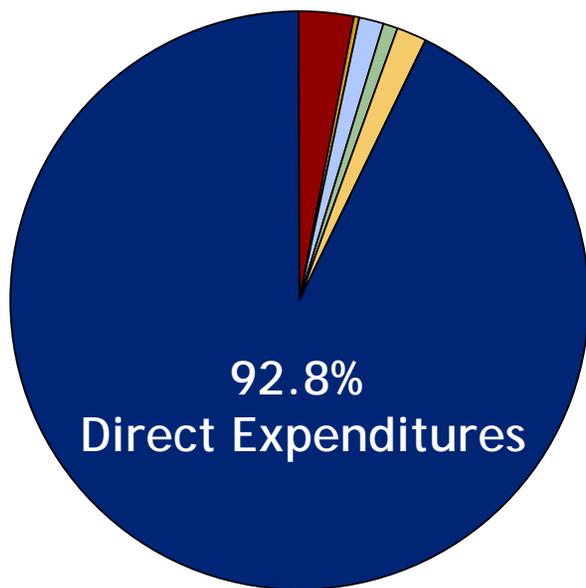


Filling gaps in financial data

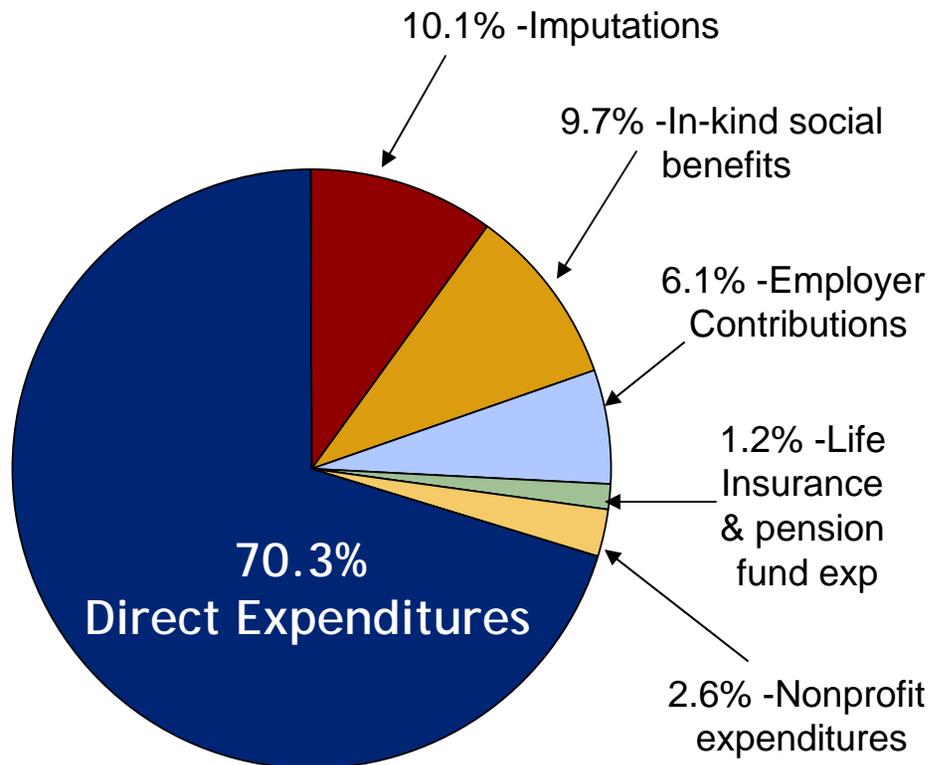
- More complete data on institutions that played a large role in the crisis
 - hedge funds
 - private equity funds
 - structured investment vehicles
- More detailed data by type of instrument
 - valuation
 - maturity
 - ultimate owner
- More data on leverage by institution and by instrument

PCE Out of Pocket Spending

- 3.1% - Imputations
- 0.2% - In-kind social benefits
- 1.4% - Employer contributions
- 1.0% - Life Insurance & pension fund expense
- 1.6% - Nonprofit expenditures



1959



2009