# Session 2c: Beyond GDP: New Measures of Multidimensional Well-being

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# *"Social Capital Predicts Happiness…"*

- About the study:
  - Using World Values Survey database
    - Narrowed social capital down to memberships in groups or association for developed and developing countries for long time period consistency
    - Sample parameters:
      - Times series data of at least 15 years in length
      - At least three observations
      - Countries with reasonably large population size

# *"Social Capital Predicts Happiness…"*

- Primary Findings:
  - Strongly positive relationship between social capital (specifically membership in groups and associations) and happiness
    - Long term trends in SC are good predictors of the long term trends in SWB and happiness
  - Research reaffirms that GDP per capita does not predict any change in SWB specifically in the long run

# *"Social Capital Predicts Happiness…"*

- Secondary findings:
  - Cross country variability in social capital is a good predictor of cross-country variability in subjective well being
  - Social capital more correlated with happiness then life satisfaction
    - Trends in membership and happiness are strongly related in the long run
  - Both life satisfaction or happiness are not correlated to GDP in the long run

# Discussants remarks

- As Stevenson & Wolfers (2008) point out data measuring happpiness, satisfaction, social networks, are limited, inconsistent, have large discontuities, and are subject to large variations across countries for cognitive reasons.
  - The data set used in this study shares many of these problems and interpretation.
  - Limited number of observations
  - Differences across waves seem improbably large and suggestion discontinuities (e.g 20% jump in U.S. membership between 1989-93 waves and 1994-1999 waves)

# Discussants remarks

- Results with respect to the lack of responsiveness over time may be due to the exclusion of transition economies.
  - Early income gains produce large increases in health, life expectancy, and presumably happiness and satisfaction; later diminishing returns
  - Also, happiness is relative not absolute, with only a 1-10 or 1-5 scale everyone would be a 10 or a 5 at some point.
    - People adjust to their circumstances and above some point there is a norm of happiness,
  - For large developed countries – especially the United States – GDP per capital wrong measure>
    - Median household income, like satistaction, is flat.

# Discussants remarks

- Whole issue of measuring happiness seems of limited value.
  - Not clear that you could ever get consistent data.
  - And data not that informative (limited variation and people adapt).
- As Becker and Ray point out, happiness or satisfaction one of many inputs into utility functions.
  - Many activities that we undertake may lower happiness, but raise utility.

# Discussants remarks

- Kennedy quote – much cited in push for measures of subjective well-being – is revealing in that happiness (and other hedonic measures) really don't address RFK's concerns about GNP:
  - "It measures everything in short, except that what makes life worthwhile."
  - "beauty, integrity, wit, strength, courage, joy, wisdom, learning, compassion, and devotion"

# "Institutions & Economic Outcomes…"

## Summary

- Research question: Have institutions caused growth? Or has growth caused institutions? Some context:
  - A long-studied problem. (e.g., Acemoglu et al., 2001, AER)
  - Typically we observe a correlation between the two across time and space. (Better institutions are associated with growth.)
  - But it is hard to establish causality, because it is hard to identify exogenous variation in the two variables. This is what much of extant literature has focused on, because this has obvious implications for policy.

# "Institutions & Economic Outcomes…"

- This paper side steps the issue of causality and attempts to measure which channel of causality dominated.
  - Key features of the approach:
    - Take explicit account of the discrete nature of the institution variable
      - Not continuous, like growth. May be scores on the 0-10 scale.
    - Uses a lagged structure to (try to) identify causality channels.
      - Associates variation in institution 10 years ago with variation in growth today
      - Associates variation in growth 10 years ago with variation in institutions today
      - Has the flavor of the Granger Causality test.
        - X precedes Y, so we conclude that X causes Y.

# "Institutions & Economic Outcomes…"

- Data
  - Institutions are measured using the "constraints on executive" variable from the Polity IV project.
    - Scale of 1 through 7, with 1 meaning *unlimited authority*
    - http://www.systemicpeace.org/inscr/inscr.htm
    - Authors combine 1 and 2; 3 and 4, so there are 5 total possible rankings.
  - GDP growth per capita obtained from World Bank Development Indicators.
    - Thousands of constant USD
  - Weighted and unweighted approaches
    - Population weightings used for the former.
  - For a given period, cross sectional variance between countries is used in estimation.
    - Variation between countries achieves identification.
      - Could we also consider variation across time for a given country?

# "Institutions & Economic Outcomes…"

- Main Findings:
  - Authors apply the metric to the developing world. They find that
    - Causal effects of institutions on growth dominate causal effects of growth on institutions.
    - Up until mid 1970s: declines in institutions dominated growth, so overall welfare declined over the period.
    - Post 1970s: institutions increased, so that welfare increased up to the present day.

# Discussants remarks

- A real strength is that the non-parametric approach allows us to look beyond simple linear inter-temporal correlation
- The authors would better motivate the paper if they could give empirical examples for specific countries relating how institutions changed and how that is captured by their measures.

# Discussants remarks

- That said, the method cannot address the fundamental issue of this literature, namely endogeneity.
  - X precedes Y, so we conclude that X causes Y.
  - A third variable(s) may be at work here (GATT, Bretton-Woods, Monetary Policy Coordination, Technology, Banking Insurance
- Appropriate Lags?
- Causality cannot be established, but the language employed by the authors is suggestive
  - E.g. "declines in polity over the period were sufficient to produce a decline in overall wellbeing."