



New Approaches to Economic Challenges [B1]

New approaches to analysing multi-dimensional well-being: trade-offs and synergies

THEME OF THE PROJECT

Achieving higher economic growth is a means rather than an end in itself...

The financial crisis of 2008 precipitated a global economic crisis and lengthy periods of recession across the OECD. A number of factors led to the crisis. Significant global capital flow imbalances added to asset price instability. Especially the growing funds of institutional investors contributed global imbalances and the shadow banking industry helped to transform these flows into a housing bubble. This was alleviated by substantial moral hazard on part of many actors (such as credit rating agencies, risk-taking investment banks and short-term investors) and by institutional failures of weak regulatory policy.

...as growth without progress in well-being and improvement in living standards is not sustainable

Policies that deliver growth but do not improve the well-being of the majority of members in a society will not be sustainable over the long term in both political and economic terms. For example, the lack of improvement in well-being outcomes for the median person may have contributed to the crisis through higher consumption, higher debt, vulnerability and financial instability.

RESULTS OF THE WORK STREAM

Assessing the policy determinants of various well-being dimensions

The core of this project is to estimate well-being functions for different dimensions of the Better Life Initiative. Some of these dimensions are modelled as a function of the other outcomes and of important contextual (and proxy) variables (such as the rate of GDP growth). The analysis is conducted at the level of both aggregate well-being outcomes for different countries (cross-sectional and over-time) and

for measures of inequalities in the distribution of these outcomes across the population.

Discussing policy trade-offs

Policy trade-offs may exist between several dimensions of well-being and require to measure gains in well-being in a common (monetary) scale to evaluate the optimal policy packages for promoting Inclusive Growth. The monetisation of non-material dimensions, such as health or employment, will be completed using various methodologies.

Identifying the main drivers of well-being

Another aspect linked to the monetisation of well-being dimensions is to identify the most important drivers of Inclusive Growth over both the long and short run. For instance, preliminary results show that progress in longevity is at least as important as growth of household income from a well-being perspective.

NEW APPROACHES

Changing the conversation: putting Inclusive Growth at the core of policy discussions

The project helps moving Inclusive Growth to the centre of the policy radar, by measuring people's preferences between various life domains that correspond to specific areas of policy intervention (e.g. education, jobs, health, and others). Taking stock of the methodological framework and policy discussion described in the OECD (2014) report "All on Board: Making Inclusive Growth Happen", these measures may inform policy by suggesting, along with other criteria, what are the key issues in a country and the related priorities for action. At a later stage, these measures will also enable analysis to identify and quantify the impact of different policies on multidimensional living standards for distinct population groups, which will in turn allow for policies to be judged on the extent to which they can contribute to making growth more inclusive.

POLICY IMPLICATIONS

Shaping an Inclusive Growth agenda

Revising economic policy from the perspective of maximising Inclusive Growth rather than productivity growth raises several important issues: i) the existence of trade-offs between several dimensions of well-being (e.g. increasing tax wedge can reduce income inequalities but at the same time slow down economic growth); ii) trade-offs and optimal policies may differ across population groups; iii) local institutions and policies may have some influence on the set of optimal policies. The set of inclusive growth measurements and indicators is ultimately a key tool to be used in assessing all areas of economic policy research and advice in light of these three issues. The project intends to provide an integrated policy agenda that would improve the framework presented in the OECD (2015) report "All on Board: Making Inclusive Growth Happen in China".

Assessing well-being policies will highlight political feasibility

Another aspect linked to well-being policies is political feasibility. Policies that aim to improve economic efficiency but significantly reduce people (subjective) well-being may not be feasible from a political perspective. The project sheds light on the acceptance of policy reforms from the people's perspective by looking at the subjective well-being cost of reforms.

PROJECT PAPERS

- **Murtin, F., Boarini, R., Cordoba, J., and Ripoll, M. (2015)**, Beyond GDP: Is There a Law Of Shadow Price?, OECD Statistics Directorate Working Paper, forthcoming.
- **Boarini, R., Fleurbaey, M., Murtin, F., and P. Schreyer (2015)**, From Subjective Well-being to Living Standards Measurement, OECD Statistics Directorate Working Paper.
- **Diaz, M. and F. Murtin (2015)**, Socio-economic Inequality in Living Standards, OECD Statistics Directorate Working Paper, forthcoming.
- **OECD (2014)**, All on Board: Making Inclusive Growth Happen, OECD Publishing, Paris.
- **OECD (2015)**, All on Board: Making Inclusive Growth Happen in China, OECD Publishing, Paris.