



ORGANISATION FOR ECONOMIC
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Alternative Measures of Well-being: The OECD Better Life Initiative

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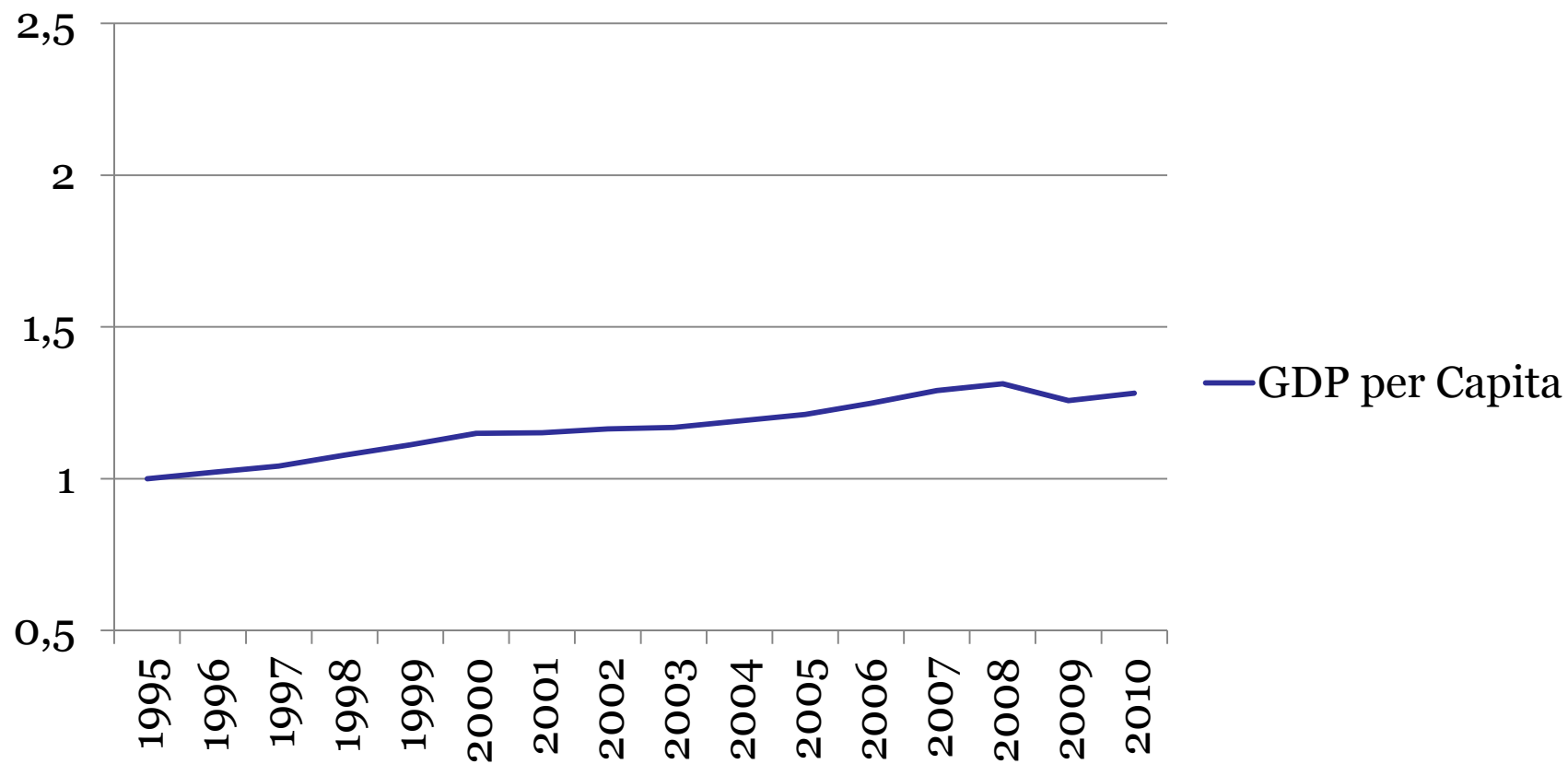
2 December 2011

Measuring Well-being

- Why do we care about well-being?
 - Public policy is ultimately about well-being
 - We pursue economic growth, education, social protection and other goals because we believe that someone, somewhere will be better off as a result
- However, well-being is difficult to measure...

GDP and Well-being

Measures of well-being in Austria



GDP and Well-being

Advantages & disadvantages of GDP

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- Output available for consumption
- \$ value easily understood
- Long time series
- Standardised across countries

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- Includes “bads” as well as “goods”
- Doesn’t count non-market production
- Values govt services at cost of production but market services at price
- Ignores distribution
- Focuses on inputs (money) rather than outcomes (what we use it for)

Alternative approaches

- Numerous alternative measures of well-being have been proposed
 - Adjusted GDP
 - Composite indicators
 - Dashboard indicators
 - Subjective measures

Adjusted GDP

- Start with GDP
 - Add in imputed values for non-market goods such as leisure, household production and environmental goods
 - Deduct “defensive expenditures” such as defence, justice, cleaning up pollution
- Examples:
 - Nordhaus/Tobin Measure of Economic Welfare (1972)
 - World Bank Genuine Savings (2002)
- Advantages and Disadvantages

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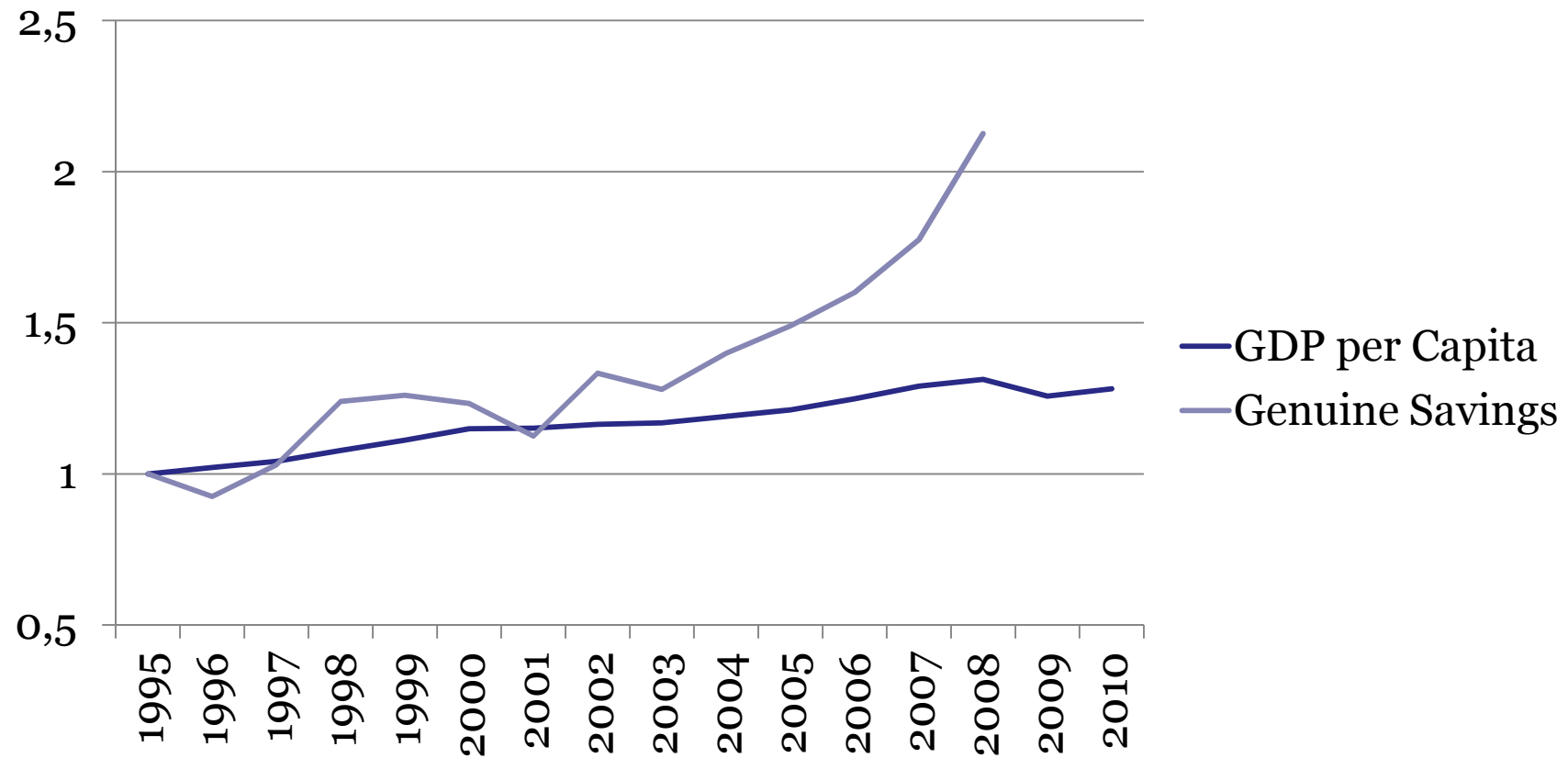
- One number
- Readily interpretable
- Grounded in existing economic frameworks

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- Arbitrary in what to include
- Ignores distribution
- Omits important aspects of well-being such as health, friends etc

Adjusted GDP

Measures of well-being in Austria



Composite indicators

- Attempt to produce a single number measure of welfare that goes further than can be accommodated by an accounting framework
 - Identify the outcomes contributing to well-being
 - Identify indicators measuring performance in each outcome area
 - Apply weights to these indicators to produce a single welfare score
- Examples:
 - Human Development Index (1990)

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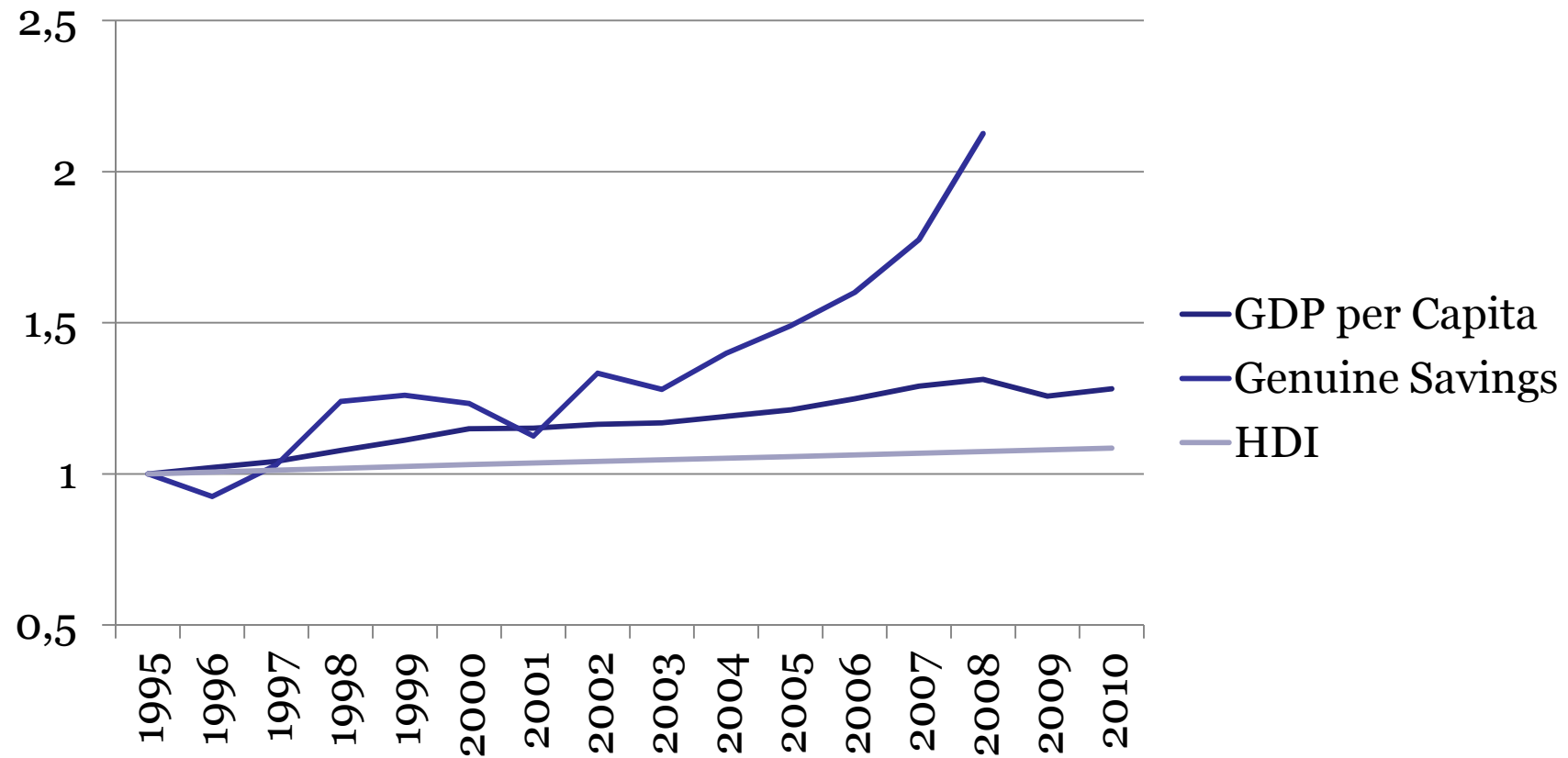
- One number
- Includes a range of outcomes
- Can weight outcomes based on inequality

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- Weights are essentially arbitrary
- Obscures what is driving changes
- Changes often driven by the most volatile components not the most important

Composite Indicators

Measures of well-being in Austria



Dashboard

- Starts from an outcome framework identifying the key elements of well-being
 - Identifies statistical indicators of progress in each outcome area
 - Indicators are reported individually to assess progress on an outcome by outcome basis
- Examples:
 - OECD Society at a Glance

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- Includes a range of outcomes
- Does not impose weights on user
- Where changes are happening is clear
- Can present inequalities

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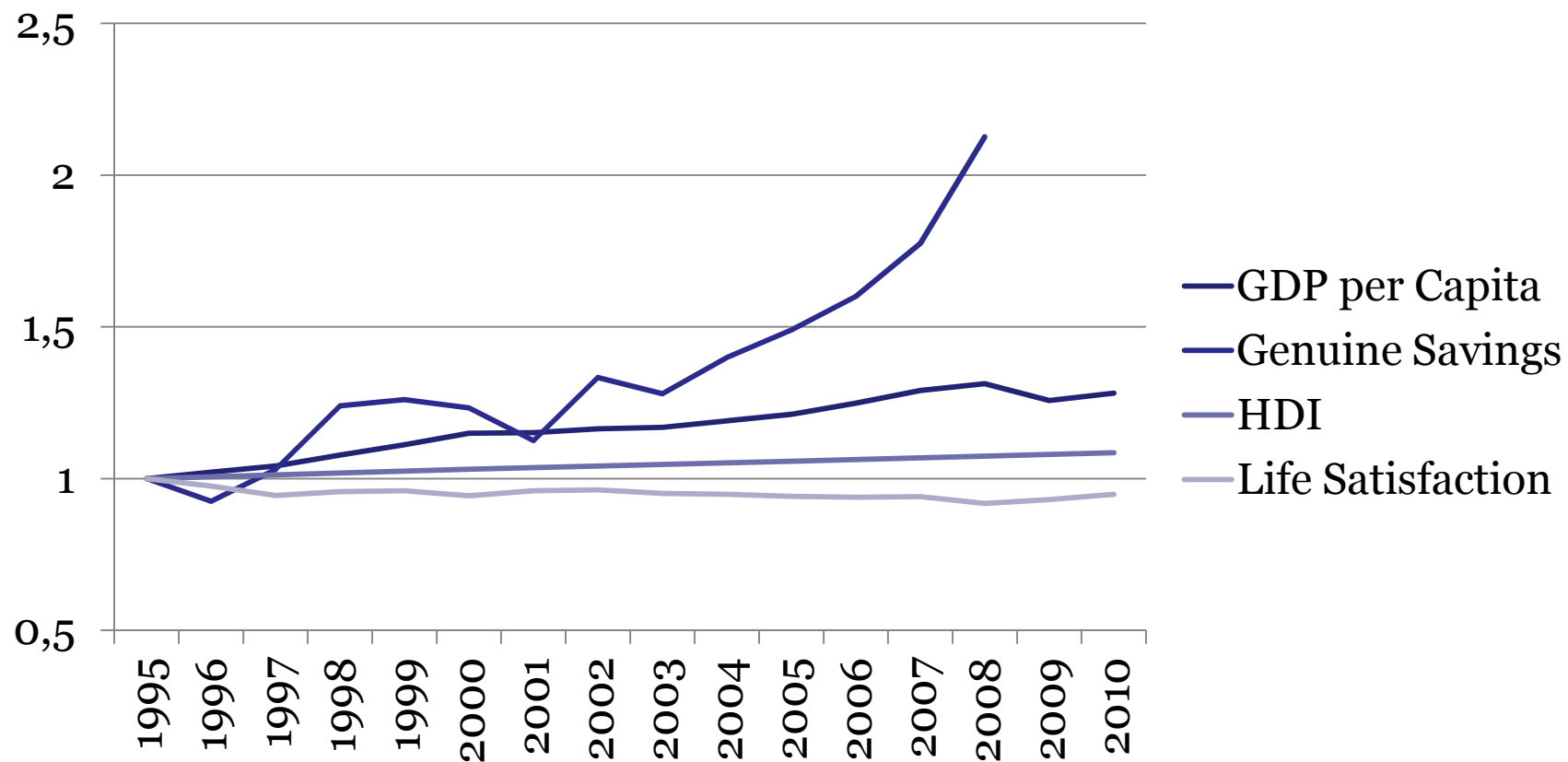
- Difficult to get an overall picture
- Presents communication difficulties
- No international standards
- Choice of domains can be seen as arbitrary

Subjective Measures

- Capture people's own perceptions of how life is going
 - Based on simple survey questions such as:
Overall, how satisfied are you with life as a whole these days?
[0-10]
 - More sophisticated measures link subjective experiences to time use
 - Examples:
 - UK Project on Measuring National Well-being
- | | |
|---|---|
| <ul style="list-style-type: none">• One number• Easy to communicate• Plausibly captures all things affecting well-being | <ul style="list-style-type: none">• Difficulty in making comparisons across cultures• High “noise to signal” ratio• No international standards• Does not change much over time |
|---|---|

Subjective Measures

Measures of well-being in Austria



OECD@50



**Better policies for
better lives**

Measuring the Progress of Societies



OECD
Better Life
Initiative

**Un-sexy methodological
work**



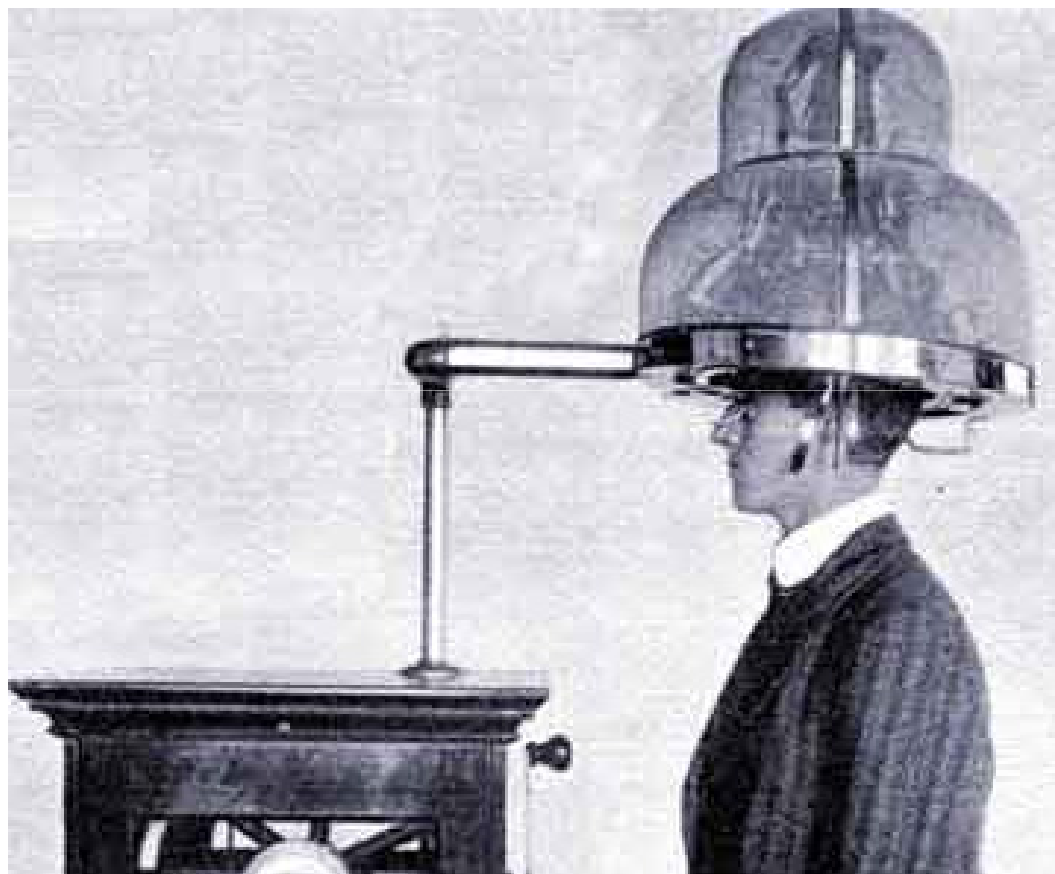
Global Project on Measuring Progress

Measuring the Progress of Societies



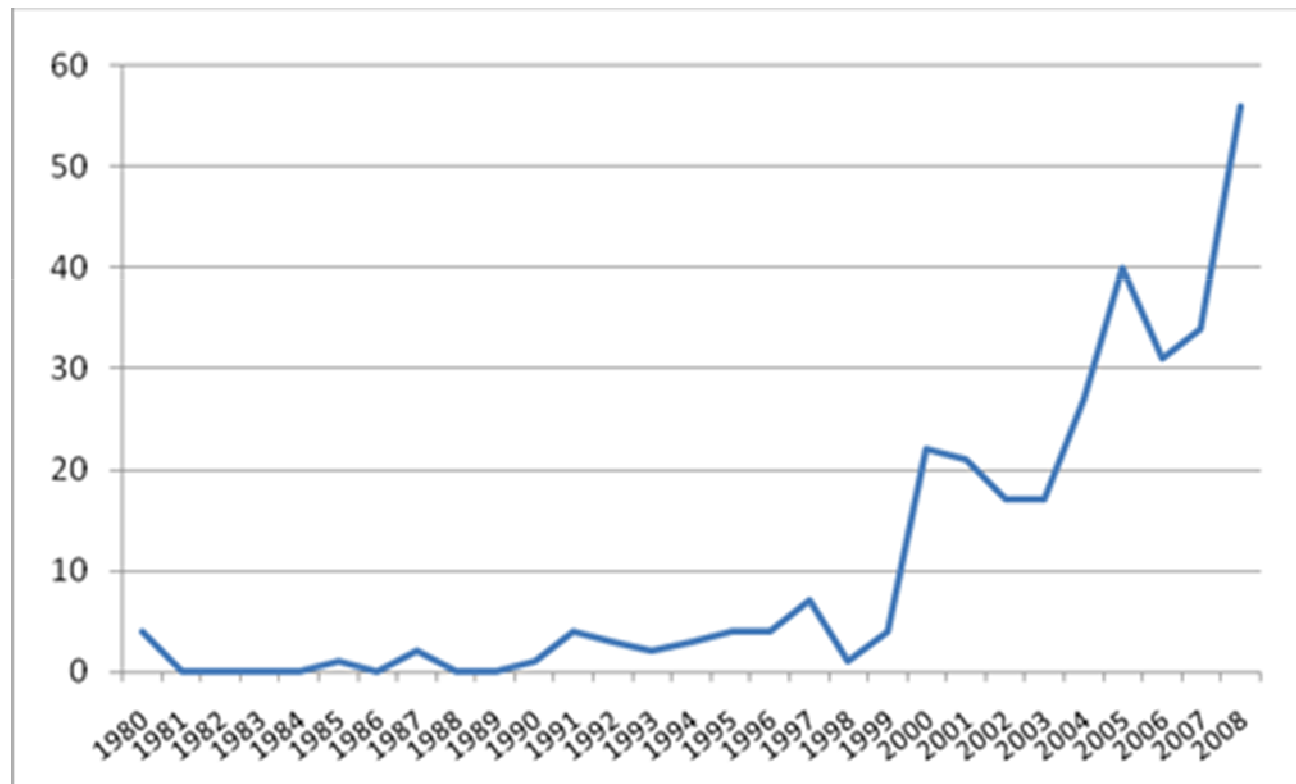
- **World Forums on Statistics, Knowledge, and Policy**
 - Palermo, 2004
 - Istanbul, 2007
 - Busan, 2009
- **Next forum will be held in Delhi, October 2012**

Guidelines on Subjective Well-being



Guidelines on Subjective Well-being

Number of papers in Econlit with subjective well-being or similar in title, 2008



Guidelines on Subjective Well-being

Table 2. Evidence on the validity of subjective measures of well-being

Type of Evidence	Sources
Face Validity <ul style="list-style-type: none"> • Item-specific non-response rates • Time to reply 	Rässler and Riphahn, 2006 Diener and Tov, 2006
Convergent Validity <ul style="list-style-type: none"> • Self-ratings over time • Ratings by friends and family • Ratings from strangers • Frequency of smiling • Changes in behaviour • Biophysical measures 	Krueger and Schkade, 2007 Frey and Stutzer, 2002 Scheider and Schimmack, 2009, Diener, Suh, Lucas, and Smith, 1999 Frey and Stutzer, 2002, Kahneman and Krueger, 2006 Frijters, 2000 Urry et al., 2004, Diener and Tov, 2006
Construct Validity	Dolan, Peasgood, and White, 2008, Lucas, 2007, Helliwell, 2010

Guidelines on Subjective Well-being

- *complement existing progress measures* at an aggregate national level
- enable us to identify empirically *what matters for well-being* at the level of the individual, and quantify the importance of different outcomes
- provide the empirical foundation for better *cost-benefit analysis*, particularly where non-market outcomes are involved
- assist in *understanding human behaviour and decision making*.

Guidelines on Subjective Well-being

Figure 3. Relative impact of different factors on life satisfaction compared to income

Outcome Area	Effect size relative to doubling of income
Female	0.6
Born abroad	-2.0
Unemployed	-3.1
Health problems	-3.1
Secondary education	1.5
Tertiary education	3.0
Feel safe walking alone	1.2
Money or property stolen	-1.0
Married	1.6
Number of children	0.0
Have friends to count on	5.2
Volunteering	2.5
Satisfied with water quality	-0.2
Confidence in the judicial system	1.1
Aggregate level of social trust	0.3

Guidelines on Subjective Well-being

- Project objective:

To prepare a set of guidelines on the collection and use of measures of subjective well-being

- The project will:
 - Be **guidelines** rather than a formal standard
 - Support the **development** of better measures rather than define a final set of measures
 - **Align** closely with existing initiatives



OECD Better Life Initiative

OECD Better Life Initiative

OECD@50 : Better Policies for Better Lives

- Measuring what matters most in people's life
- Based on almost 10 years of OECD work on measuring progress

Compendium of Well-Being Indicators

Your Better Life Index

How's Life? Report



OECD
Better Life
Initiative

Focus

- **Households and people**, not just the economy (GDP)
- Based on **outcomes**, not inputs or outputs
- Assessing **inequalities** besides average levels
- Includes both **objective** and **subjective** aspects of well-being

Scope

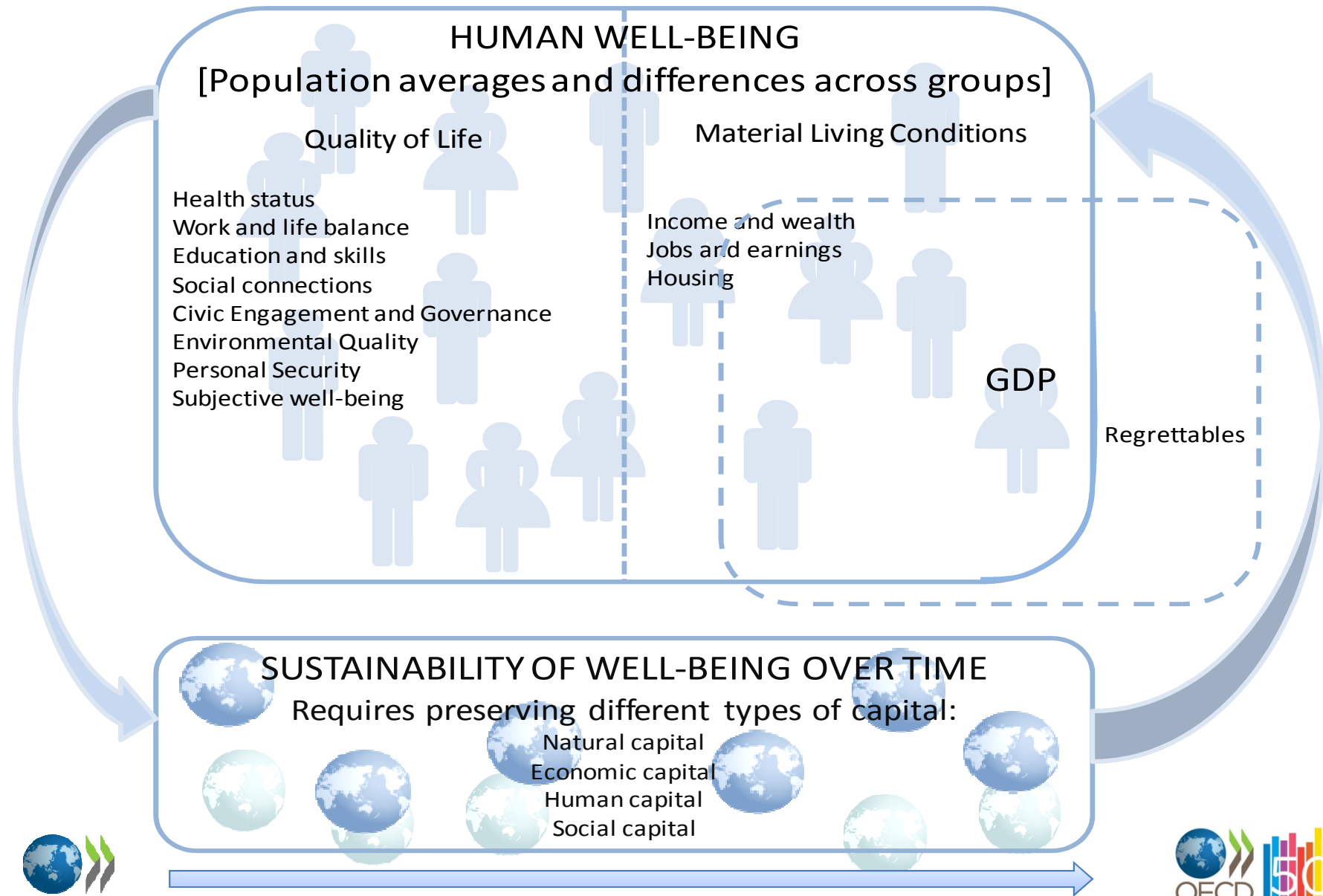
- Three broad domains

Material living conditions

Quality of life

Sustainability

Framework



Criteria for selecting dimensions

- Consolidated approach based on :
 - **Conceptual work** (Stiglitz-Sen-Fitoussi recommendations, previous OECD work, other established research on well-being)
 - **Examination** of national and other international initiatives
 - **Internal consultation** within OECD

Criteria for choosing indicators

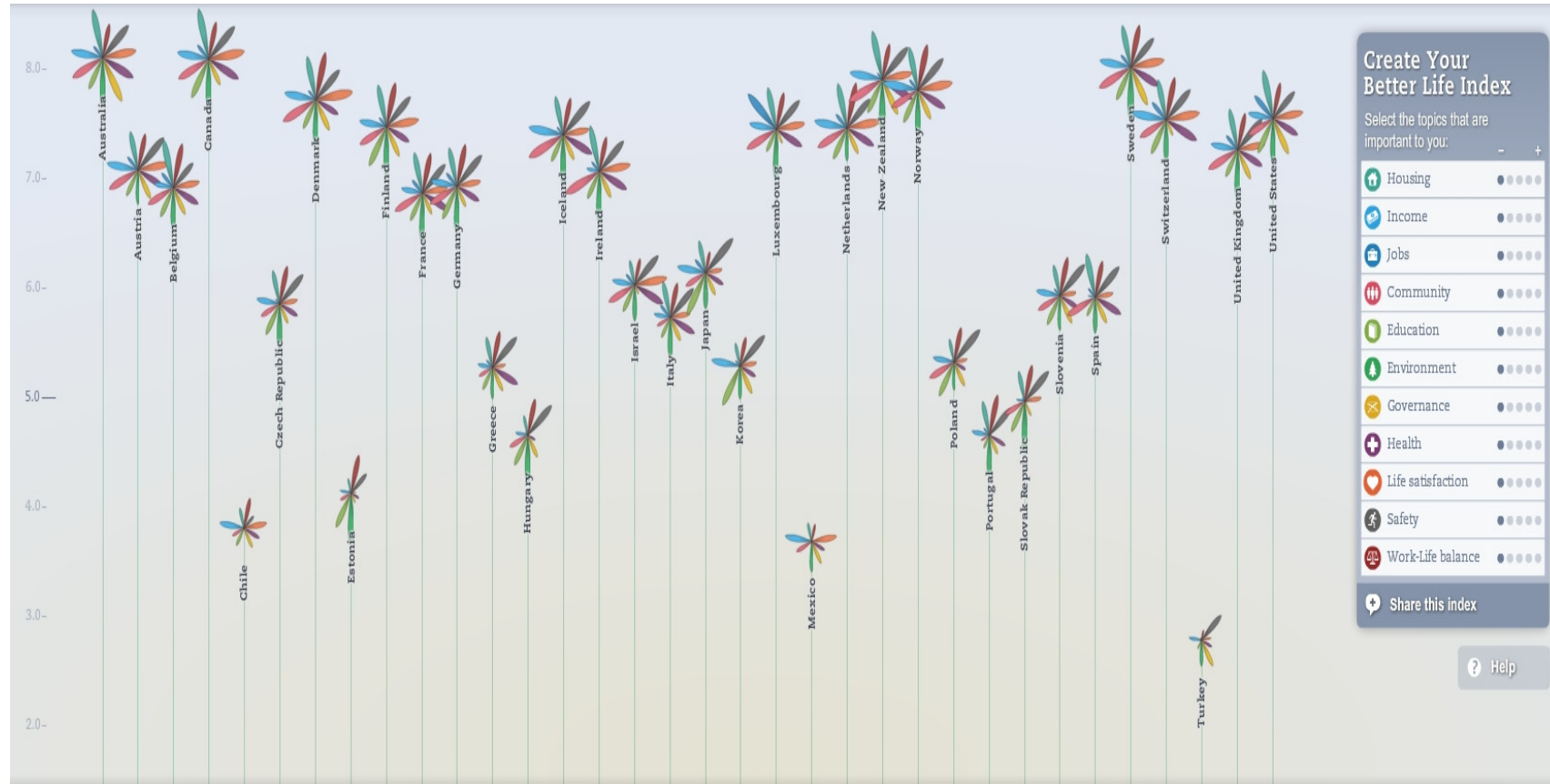
Relevance with respect to the target concept

- face-validity
- easily understood, unambiguous interpretation
- amenable to policy changes
- possibility of disaggregation by population groups

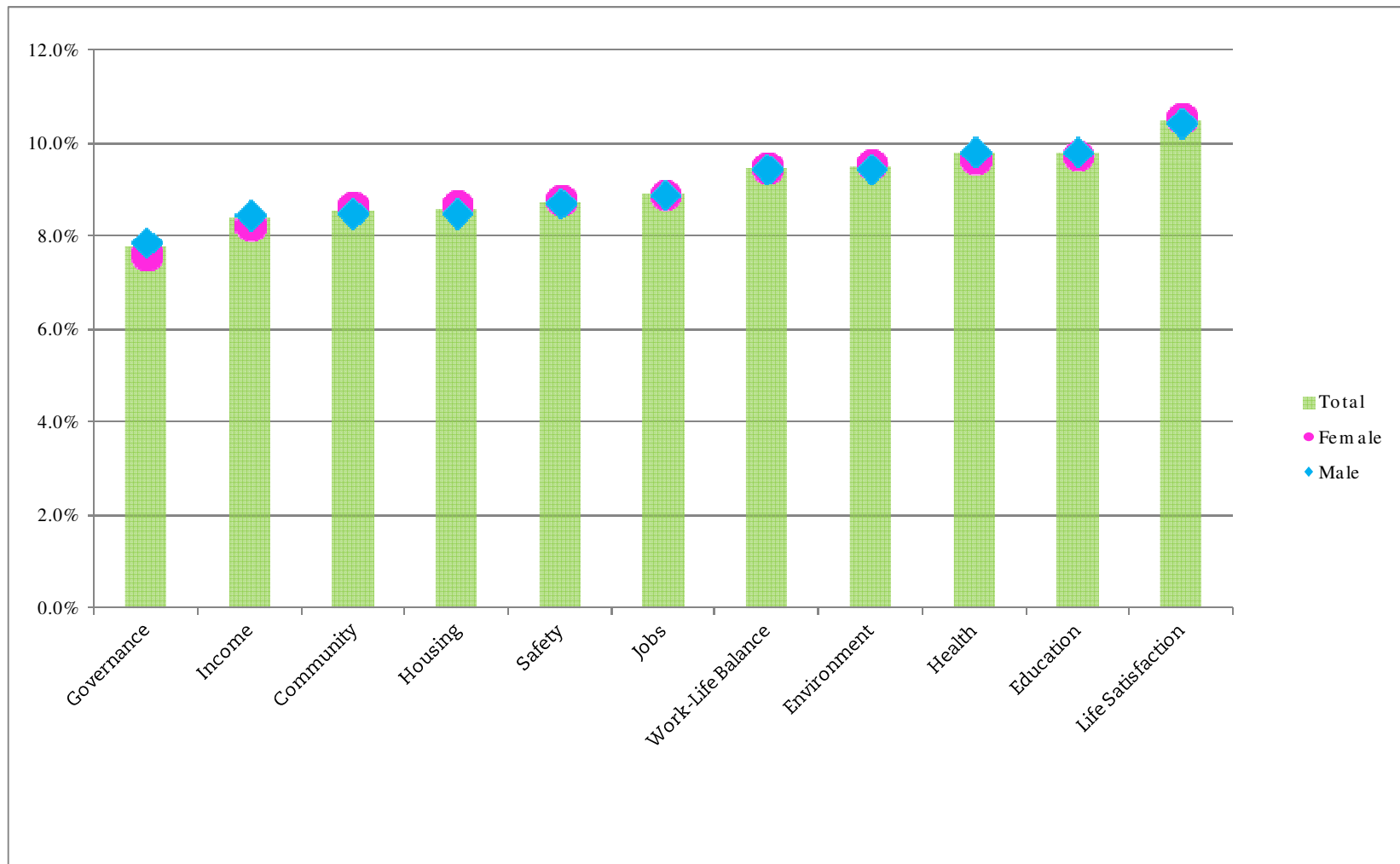
Quality of supporting data

- official and well-established sources
- comparable/standardized definitions
- maximum country-coverage
- recurrent data collection

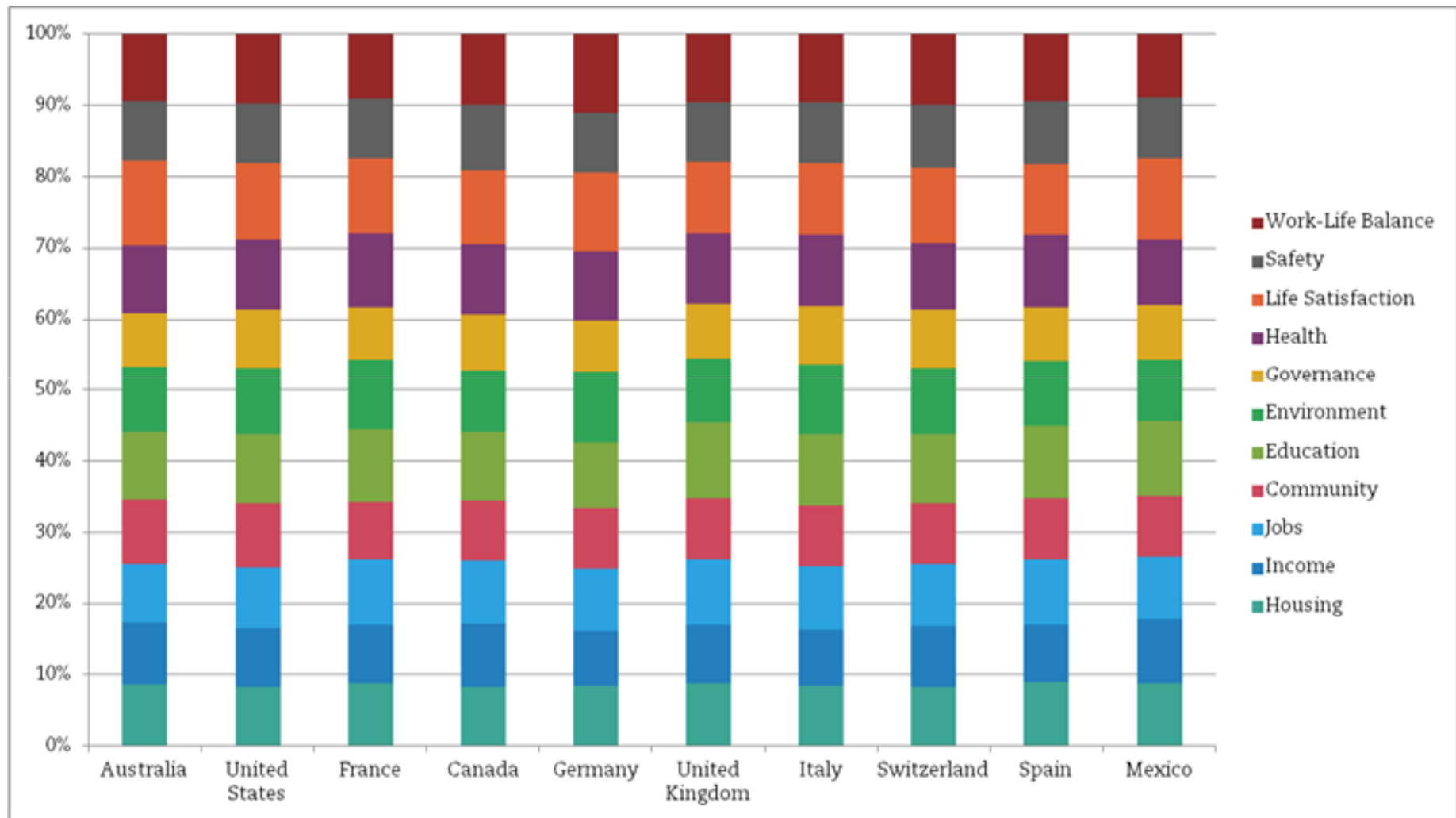
Your Better Life Index



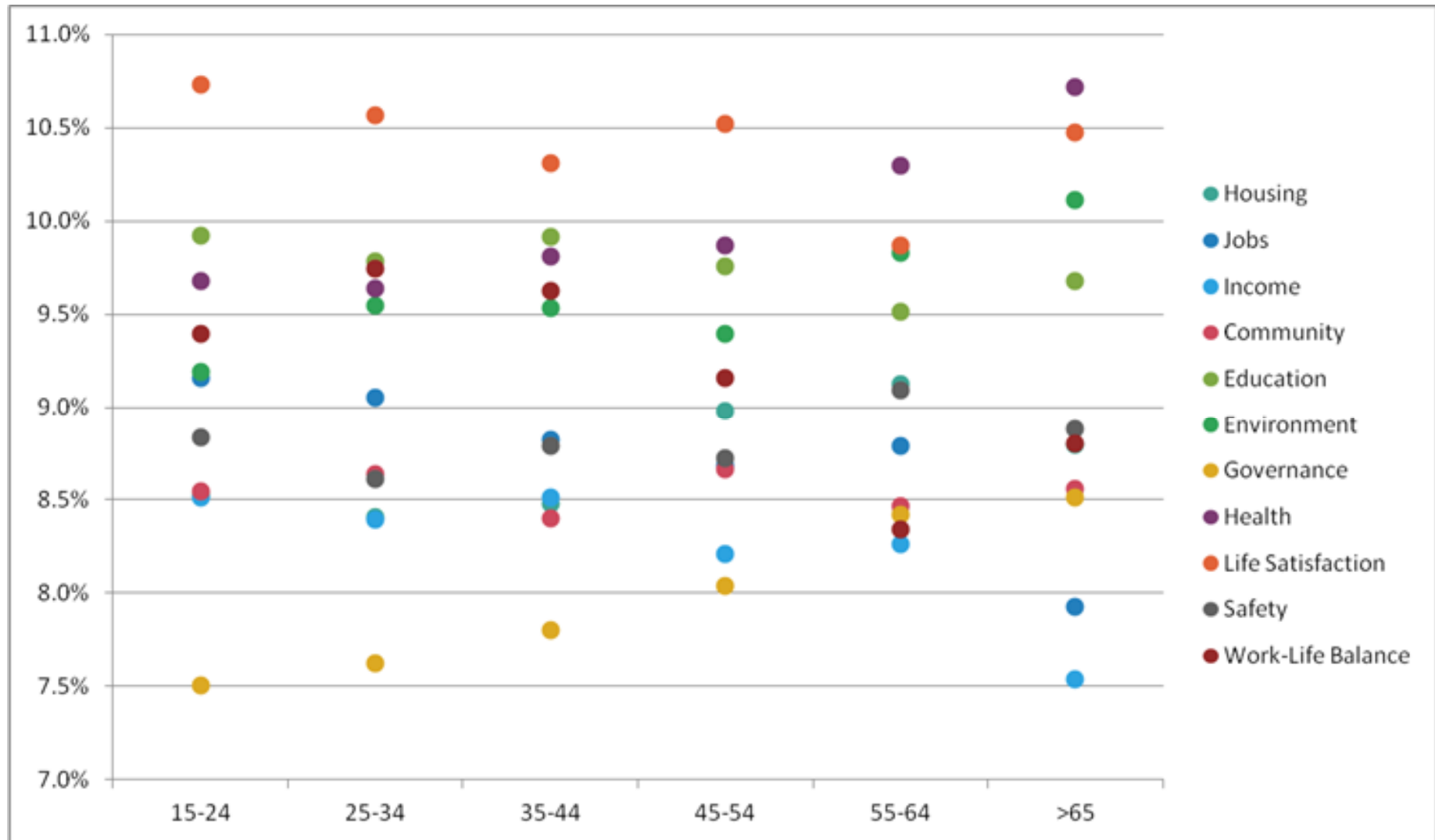
What matters most to people?



Little variation across countries



Age makes a difference



An experimental and evolutionary process

- Improved indicators as research results become available
- Will include more countries, notably BRICS
- Will include more on inequalities and sustainability

BLI Domains and Subjective Well-being

- It is tempting to view measures of subjective well-being as a proxy for the overall social welfare function for the purposes of:
 - validating well-being domains
 - weighting indices such as the BLI
- The former is plausible...
- ...but the latter is more problematic

Your Better Life Index

OECD – Your Better Life Index

