Prosperity and Fairness

A B Atkinson
Institute for New Economic Thinking at the Oxford Martin School, University of Oxford, and London School of Economics

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Prosperity and Fairness

1. Measuring Prosperity
   - A human face for national accounts
   - Growth, crises and prosperity

2. Fairness
   - Prosperity and inequality
   - Wider concepts of fairness and inequality between generations
1. Measuring prosperity

- Aim of national accounts = measure marginal contribution of economic activity to human well-being;
- Many other determinants of human well-being;
- Measuring these is important and challenging, but a different exercise;
- We can take immediate steps to improve how we measure and assess economic growth.
Stiglitz Commission recommendations:
1: When evaluating material well-being, look at income and consumption rather than production;
2. Emphasise the household perspective.
Growth over the Lisbon decade

Gross Disposable Real Income of Households 1999Q1 = 100 Euro area (17)

Source: Eurostat website
A little-heralded success

Figure 2

Gross Disposable Real Income of Households: 1999Q1 = 100 Euro area (17)

Source: Eurostat website
The UK decomposed

Household income in the UK

Source: 2010 National Income Blue Book, Tables 6.1.6 and 6.4
• Rich countries can no longer expect ever-increasing standards of living in terms of household incomes;

• RATHER, should aim at responsible stewardship, ensuring that we maintain standards of living for future generations;

• BUT growth of GDP essential:
  - education and investment in young people;
  - health and pension costs of ageing populations;
  - ensure environmental sustainability.
• At the same time, desire for stability and the avoidance of crises;
• In the past, there have been long periods without financial crises.
The income “parade” of people

Taking account of inequality
BUT Which inequality?

Poverty line

Poverty rate remains high

Gini coefficient

“Middle class being squeezed”

Median

Top income shares racing away

Income
Inequality-adjusted household income

Stiglitz Commission recommendation 4: Give more prominence to the distribution of income, consumption and wealth.

Incorporate inequality into headline income measure; NOT a separate indicator. This could be implemented in different ways: for example:

• Median in place of mean income;

• Sen’s real national income = mean x (1- Gini coefficient);

• Mean income of bottom 99 per cent.
Figure 6  Inequality-adjusted household income growth in UK 1961-2010

- Mean
- Median
- Sen real income
- Expon. (Mean)
- Expon. (Median)
- Expon. (Sen real income)

Source: Institute for Fiscal Studies, website downloaded 30 October 2011
Figure 7  Mean income of the bottom 99 per cent (combining data from two sources)

Sources: Lehtitmaa et al., 2009, Tables 2 and 3 (mean income), and World Top Incomes Database (shares of top 1 per cent)
When assessing lifetime well-being, how should we weight income/consumption?

1. Concern for falls in income/consumption;
2. Independent of previous or expected future income/consumption;
3. Less weight to those higher income/consumption in past or with higher expected future income/consumption.
Conclusions: Fairness and prosperity

- Immediate changes can be made in the measurement of prosperity, to bring it closer to the experiences of individual citizens (Stiglitz recommendations 1 and 2);
- Measures should incorporate distribution (recommendation 4); not isolate inequality as separate element;
- Rephrase aspirations as responsible stewardship: less growth over time in spendable income in rich countries, but greater priority to stability of living standards;
- Growth in GDP necessary to invest in infrastructure, in education and to provide for ageing population;
- Broader concept of fairness takes us beyond standard welfare economics, c.f. inter-generational equity.