



Prosperity and Fairness

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- 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



- 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.

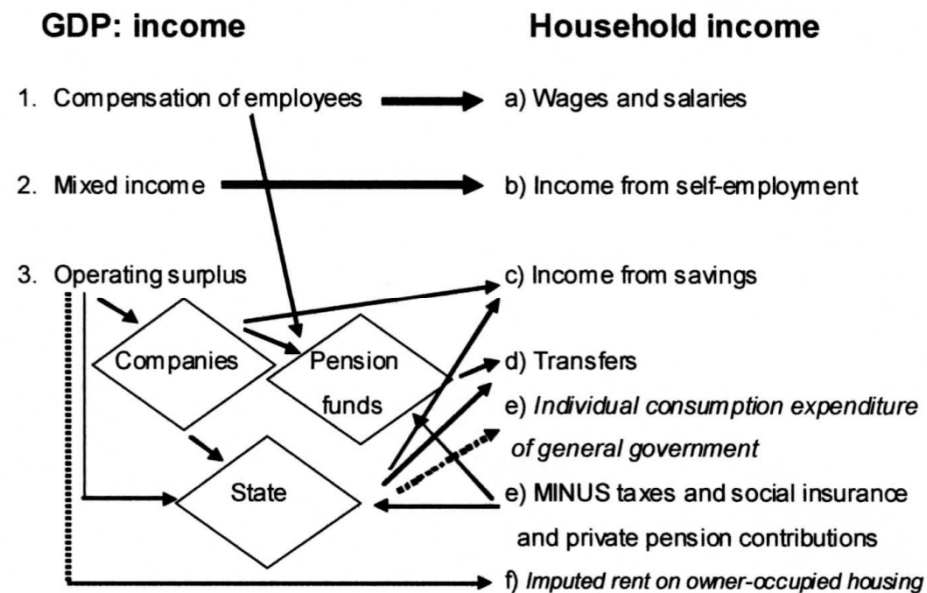
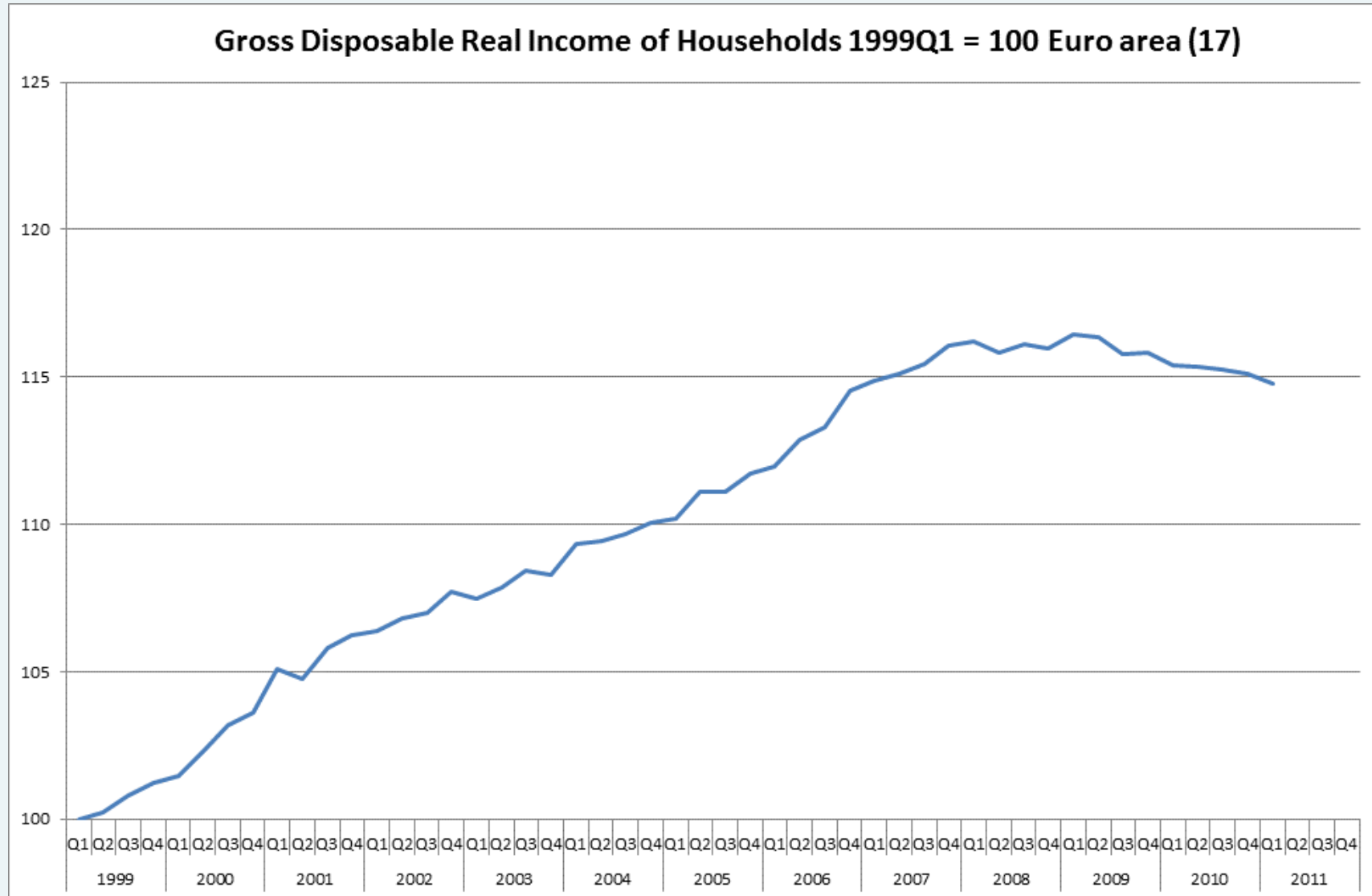


Figure 1 Linking national income flows to household income

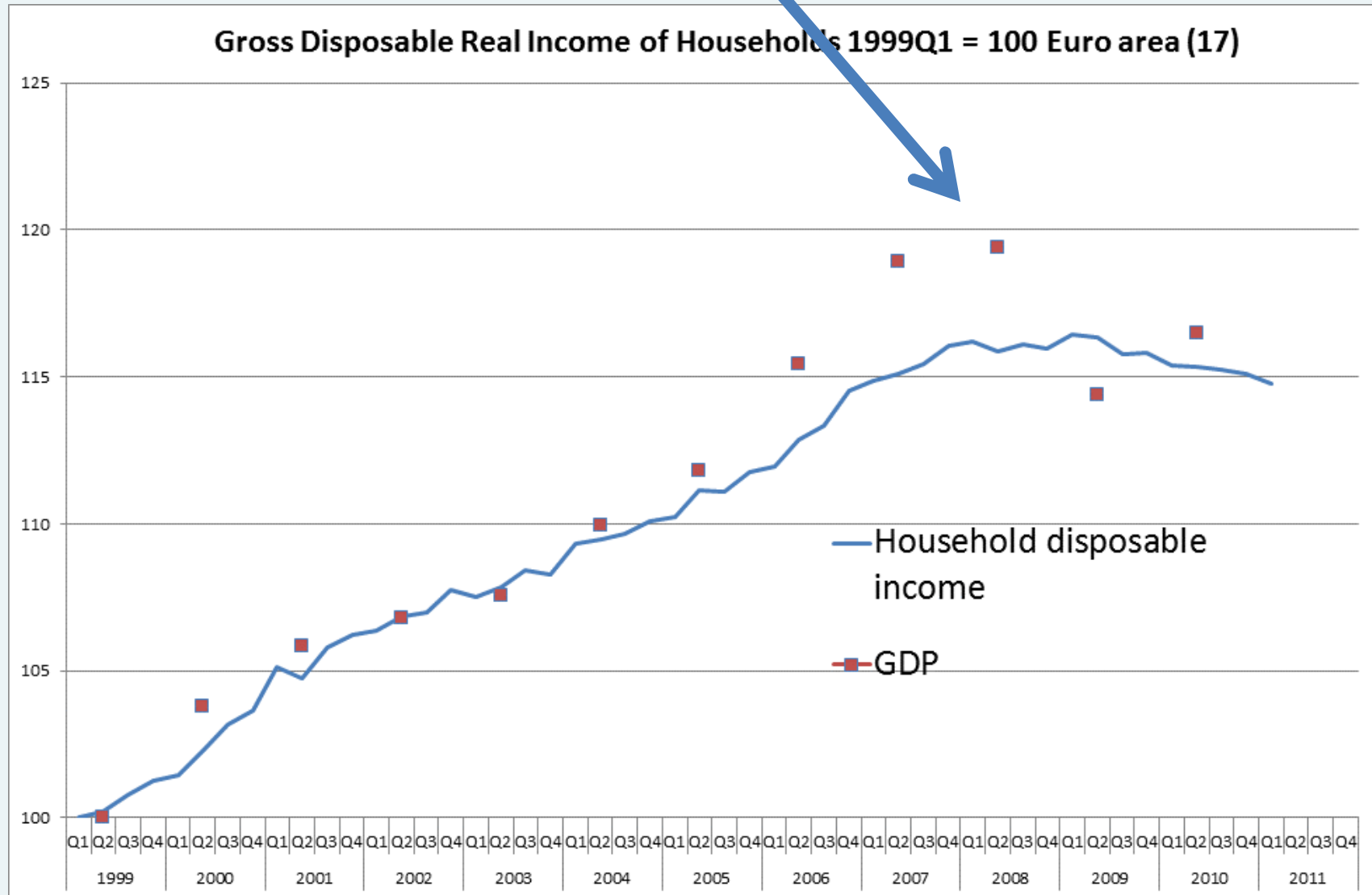
Growth over the Lisbon decade



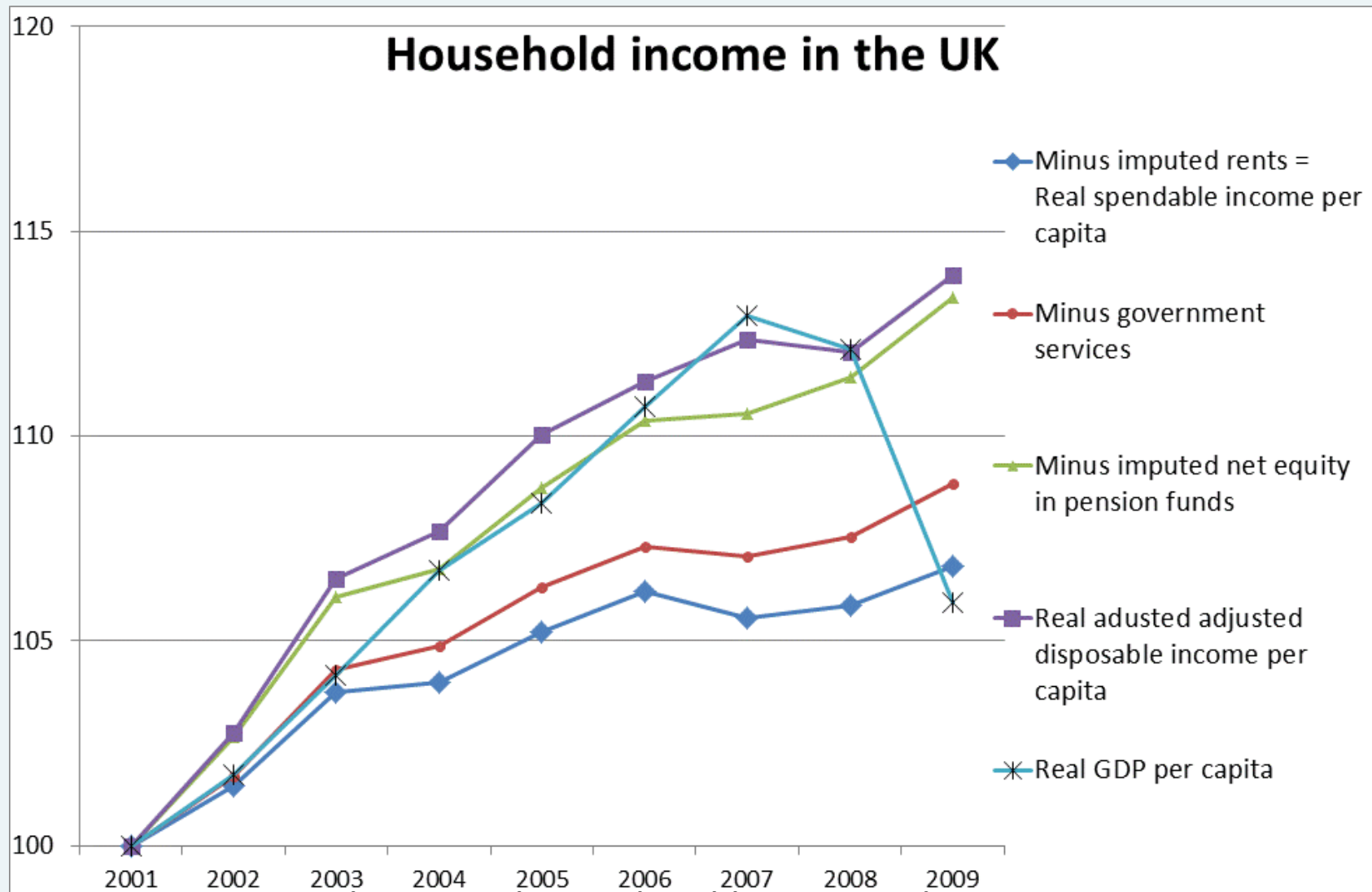
Source: Eurostat website

A little-heralded success

Figure 2



Source: Eurostat website



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.

Banking Crises in 25 countries

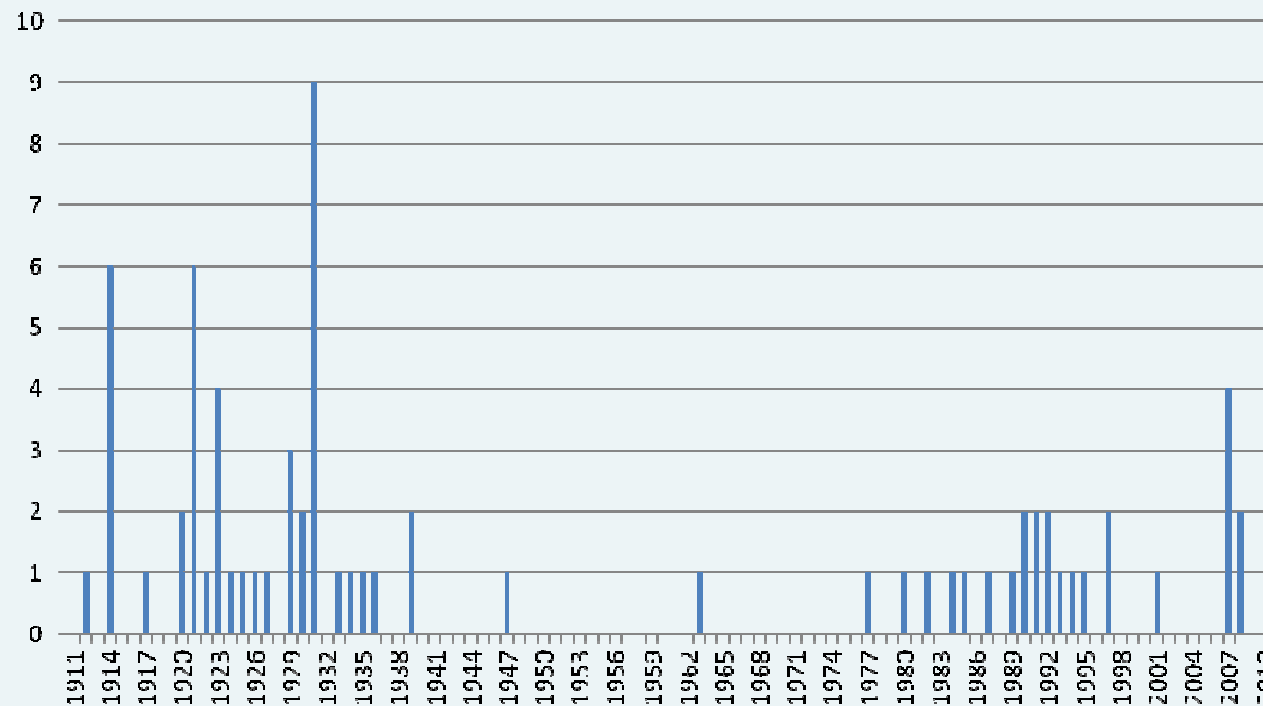
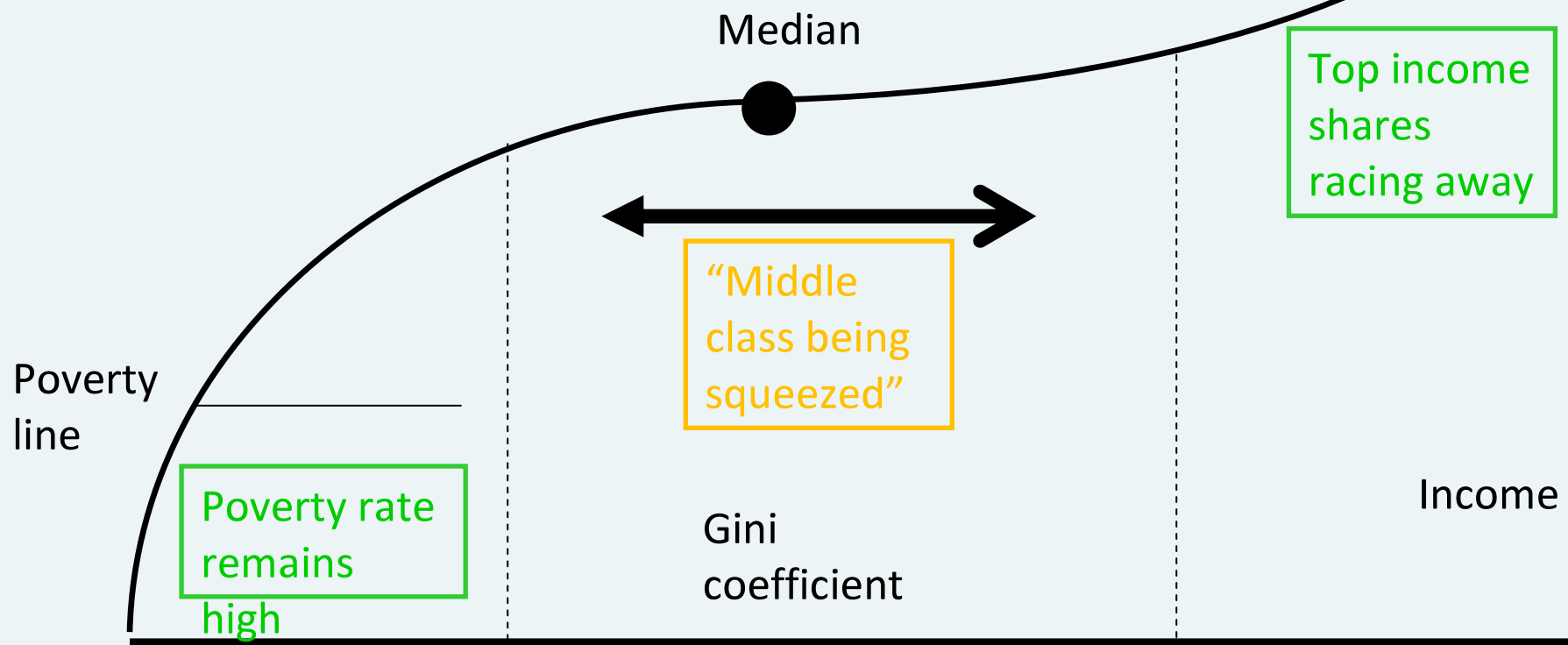


Figure
4

2. Fairness



Taking account of inequality
BUT Which inequality?

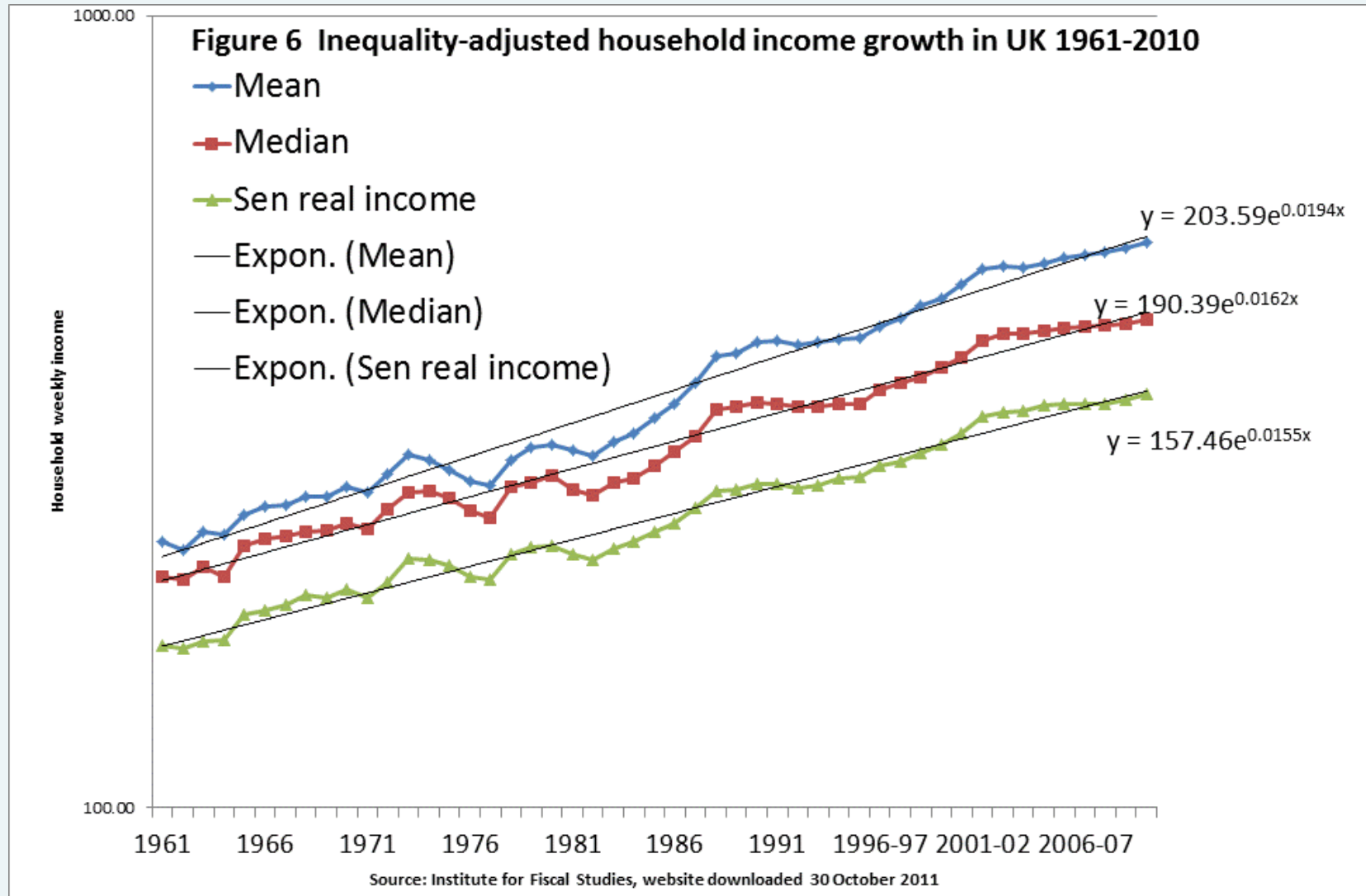


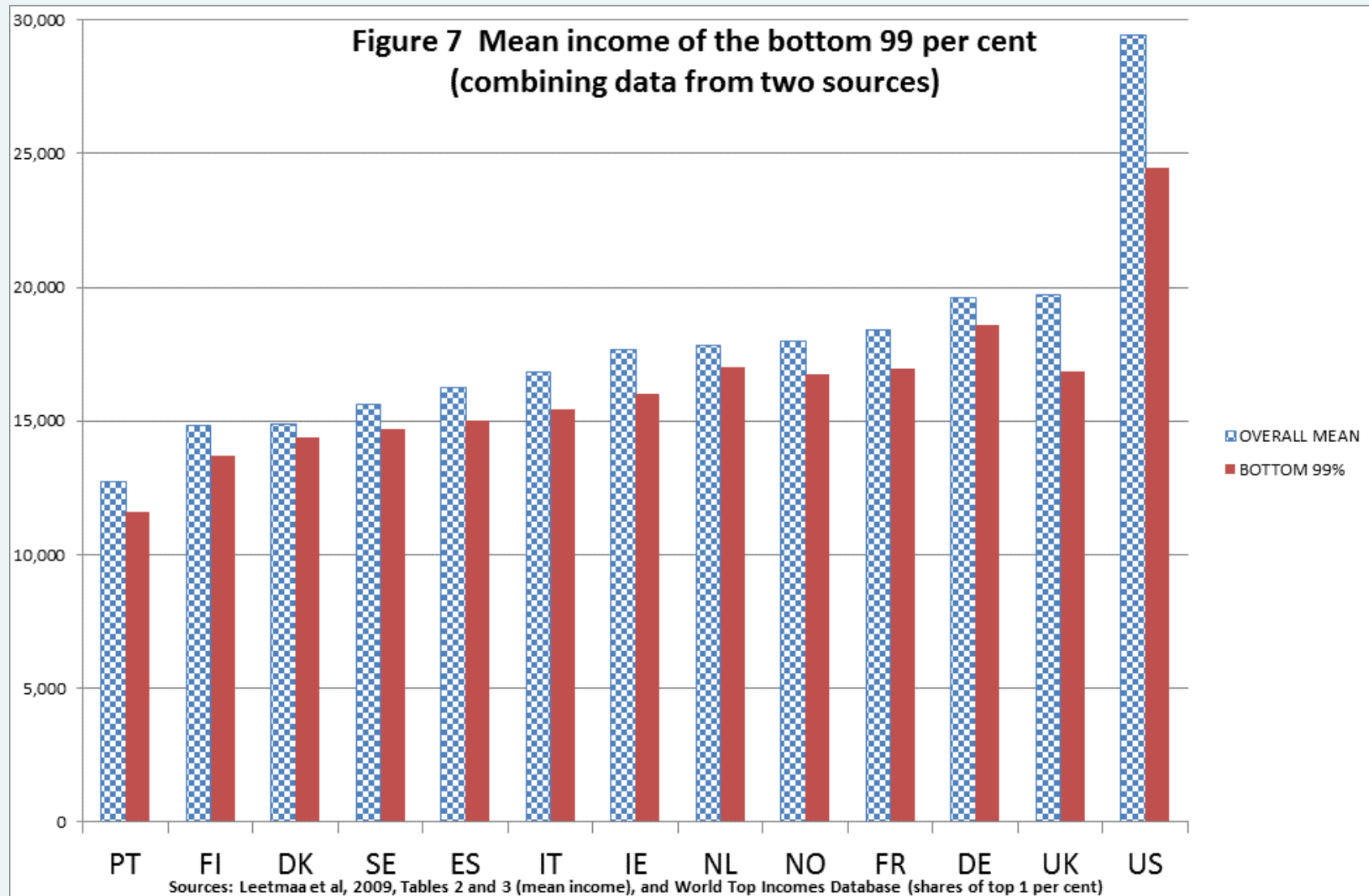
The income "parade" of people →

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 \times (1- Gini coefficient);
- Mean income of bottom 99 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.

- 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.