Fed Chief Looks Beyond GDP to Happiness Measures

On Monday, Federal Reserve Chairman Ben Bernanke gave a new jolt of momentum to the growing push for new measures of progress going "beyond GDP." In prepared remarks for the 32nd general conference of the International Association for Research in Income and Wealth (IARIW), held this week in Cambridge, Massachusetts, Bernanke noted the failure of conventional market indicators in capturing the severe household impacts of the Great Recession and the continuing distress for many families and individuals. But his main point, addressing an important forum for national statisticians and academic experts in the field, was broader and more philosophical. We need new measurement approaches that bring us closer to the "ultimate purpose of economics," Bernanke asserted, and that purpose is "to understand and promote the enhancement of well-being." In some detail, he emphasized the importance of subjective well-being, or "happiness," measures. Coming from America's superintendent of price stability and maximum employment, Bernanke's deep plunge into ideas about a happiness economy naturally set the blogosphere and news wires abuzz, mostly favorably like this piece from *Bloomberg Businessweek*.

In fact, Bernanke has addressed this issue previously, most notably in his 2010 commencement address on the economics of happiness at the University of South Carolina. But this week's reaffirmation of happiness economics registered somewhat differently amid all the speculation about further Fed actions to boost the faltering recovery. Bernanke emphasized the need to measure feelings of "confidence" and "security," and the potential for using such measures to "explain economic decision-making." His comments suggested more than a passing interest in the potential for policy guidance based on happiness metrics, even for financial policy. He referenced the Kingdom of Bhutan, which has jettisoned GDP in favor of a framework called Gross National Happiness, including extensive use of subjective measures.

Given the audience, Bernanke's remarks might be considered a high-level endorsement for integrating happiness measures into national statistics, and some countries have already begun to do so. The United Kingdom's Office of National Statistics has launched a major new initiative on happiness measurement, and Bernanke undoubtedly will be interested in the findings of a high-level U.S. working group on the issue, convened late last year by the National Academies and funded by the Department of Health and Human Services. The Chairman of the President's Council of Economic Advisers, Alan Krueger, is a leading scholar in the field and has pioneered the development of a national accounting model for subjective well-being, based on time-use surveys.

Bernanke's repeated endorsements of a well-being-oriented approach undoubtedly will help the cause of happiness economics, yet there are other measurement advances that are much closer to fruition and, in my view, much more relevant for today's policy needs. Below the Bernanke-level radar, the IARIW meeting (I was in attendance) was deeply imprinted with some of these more practical "beyond GDP" themes. And more important, across the rich five-day program organized by J. Steven Landefeld, Director of the Bureau of Economic Analysis (effectively America's chief economic statistician), it was clear that the long-evolving debate about the limits of GDP has reached an important turning point. A combination of technical advances in the field, growing engagement from the policy community, and increasing political support has turned the debate in a new practical direction, underscored by serious policy needs. At the heart of this emerging consensus, it is clear that the major problems we face, from declining household living standards, to growing inequality, to our collapsing investments in societal needs and national competiveness, are very poorly reflected in the conventional market measures we've been using to mark our "progress" in recent decades. At a practical policy level, "beyond GDP" includes a range of measurement advances that can help us understand and address, among other things, distributional changes and impacts in our economy, social and environmental needs that are vulnerable or severely vulnerable to market failures, and non-market sectors that are both economically important and publicly dependent, most importantly education and health (see here for Demos' comprehensive survey of alternative measurement approaches).

The President's Council of Economic Advisers is bringing a new focus to this issue, with a very practical eye for policy relevance. In its concluding chapter, the CEA's 2012 Economic Report of the President broadly addresses "beyond GDP" themes and points to key measurement needs in areas where public contributions are "not fully reflected in GDP," such as environmental regulation and infrastructure investment. Extending the argument in a keynote lecture at the IARIW meeting, CEA member Katharine Abraham urged a practical focus on the most feasible and relevant advances in critical sectors of the economy, most importantly education and health. Total spending on education and health is already roughly 25 percent of GDP, and both sectors have a large public component and an important role in human capital development and economic growth, most economists would agree. Yet, because education and health are largely non-market goods, GDP (in its most classic flaw relating to public goods) can only measure public investments in these sectors at the cost of the inputs, missing a large part of the value being created. Many economists have argued that human capital was already the most important source of economic growth in the twentieth century, let alone the twenty-first. If they are right, then, clearly, we need a measurement framework that includes human capital and the non-market sectors largely responsible for human capital formation.

The growth and prosperity we've enjoyed to this point was never adequately measured by GDP, but in the twenty-first century, the disconnections between what we're measuring and what we need for continued prosperity are not at all incidental, or simply technical problems. In fact they are truly threatening to our prosperity. The good news is, we're finally making progress towards the implementation of new measurement approaches in concrete policy settings. With Chairman Bernanke's big bet on happiness measurement, the growing consensus on this issue has some new muscle. But the real test for going beyond GDP is policy relevance and impacts on decision-making. That is where our focus needs to be today, even as the policy relevance of happiness measurement may also be coming into focus.

http://www.policyshop.net/home/2012/8/8/fed-chief-looks-beyond-gdp-to-happiness-measures.html