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COMPARISONS OF ECONOMIC WELL-BEING IN THE 1990s AND 2000s, CANADA, GERMANY, AND THE UNITED STATES

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Abstract: The picture of economic well-being is crucially dependent on the yardstick used to measure it. We develop a measure of household economic well-being that we call the Levy Institute Measure of Economic Well-Being (LIMEW). The LIMEW is broader in scope than the standard measures of gross money income (MI) and disposable income (DI) in that our measure includes comprehensive definitions of noncash transfers and household tax burden. Our measure is broader in scope also because we include public consumption, income from wealth, and household production. We provide comparisons of LIMEW for these three countries in the early 1990s and the mid-2000s. Particular attention (and resources) is devoted to creating consistent measures across the three countries.

The LIMEW differs from the standard DI measures because we include as part of noncash benefits not only near-cash transfers such as food coupons but also other items, most importantly, the value of health insurance provided by the employers and government. The difference on the tax side is that the LIMEW takes into account the burden of indirect (i.e., consumption) taxes, in addition to income and payroll taxes. Unlike the DI and MI measures, we include estimates of long-run benefits from the ownership of wealth (other than homes) in the form of an imputed lifetime annuity, a procedure that, in our view, is superior to considering only current income from assets.

MI and DI seek to estimate the command over commodities. Although commodities are of critical importance, they form only a portion of the entire set of goods and services available to households. The state plays a crucial role in the direct provisioning of the “necessaries and conveniences of life” (to use Adam Smith’s famous expression), such as public education and highways (“public consumption”). Nonmarket household work, such as childcare, cooking, and cleaning, also provides the necessaries and conveniences of life (“household production”).The LIMEW includes estimates of public consumption and household production in our measure, components that are excluded in most available measures of economic well-being.

There are three key motivations behind constructing the LIMEW. First, trends in well-being are sensitive to how we choose to measure well-being. A broader measure of well-being might be a better guide to actual differences in the standard of living across countries and over time. Second, in order to study disparities among key demographic groups, money income might give us only a partial picture of the relative advantage of one particular group over another. Third, our broader measure provides a more comprehensive measure of economic inequality. As one might expect, household production and public consumption are distributed much more equally than earnings among households. On the other hand, inequality in wealth is generally much higher than that of income or earnings. Our measure allows us to estimate the net effect of including these components.

We believe that the new results contained in this paper may force us to rethink the growth of well-being and trends in inequality among these three countries. Moreover, the study will provide surprising findings of the relative well-being of the three countries. The new findings will also shed new light on the extent to which the three countries differ in terms of the role of government in redistribution and promoting increases of well-being. It will also turn out that developments in inequality are to a large extent due to periodic spikes in household wealth.

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