



2017  
**IARIW-BOK Special Conference**  
(Seoul Korea, April 26-28, 2017)

# **Making Estimates of National Income Better Reflect Economic Well-being: The U.S. Experience**

**Discussion by Taehyoung Cho**

THE BANK OF KOREA

# Introduction

- This paper presents what has been done to improve the U.S. NIPAs from '**Headline GDP**' to '**Beyond GDP measures**' since the BEA devised the U.S. framework of compiling macro indicators.
- In addition, Arnold presents his views on the best approaches to be taken in future works to make aggregate income and product as well as the size distribution of income better reflect economic well-being.

In this regard, he mentions three issues: **1) in-kind income, 2) the services of consumer durable goods, 3) capital gains**

- I enjoyed reading Arnold's paper: **understanding** the evolution of the U.S. NIPAs toward economic well-being measures is one thing, and **developing my views** is another



# Understanding U.S. experiences

# Understanding the history of U.S NIPAs

- Brief history of U.S. NIPAs
  - Four founders of the U.S. NIPAs: Gilbert, Denison, Jaszi, and Schwartz
  - NIPAs are greatly expanded in 1958,  
Integration with IO tables (1964),  
Improvements in Flow of Funds Accounts (1965)
  - Since 1990, Expansion of the asset boundary,  
Accrual accounting for pensions,  
Chain-weighted price and quantity indexes,  
Greater consistency with the SNA

# Understanding Debate over Objectives of GDP

- Objectives of GDP measurement
  - Direct link to welfare (Kuznetz)
    - vs measure of economic performance (Jaszi)
  - GDP and sustainability: GDP vs NDP (Weizman)
  - GDP and economic planning
  - GDP and economic analysis

# Understanding Debates over Concept of GDP

- Objectives of GDP measurement
- GDP measurement subjective (Kuznetz) vs objective (Jaszi)
- GOV product intermediate (Kuznetz) vs final (Jaszi)
  - \* how to deal with 'regrettables'
- Usefulness of the accounting approach (Kuznetz vs Jaszi)
  - \* how to deal with in-kind income,  
especially when it does not have economically significant prices
- Boundary of production issues
  - \* Owner-occupied dwellings, consumer durables, houseworks

# Understanding Beyond GDP efforts at BEA

- General expansion of BEA's program
  - Providing more distributional, detailed, matrix-type data
  - International accounts, Industry accounts, Regional accounts
- Broadening top-line aggregates (GDP and personal income)
  - Improving personal income measures (social benefits in kind)
- Measuring aspects of economic well-being outside of the NIPAs
  - Environmental and non-market economies
    - \* services of consumer durables, services of government capital, renewable resources, household works, human capital investment in health
  - Green GDP (natural resources accounting)
  - Capitalizing government durables and intangibles
- Health care satellite account
- Household production (unpaid household work, consumer durables)

# Distributional Income Measures in U.S.

- Distributional income does matter
  - \* by type, by income-size (decile, quartile), by function (labour and capital)
- The BEA had produced the size income distribution from 1953-1974 and then stopped
  - Recently revived interests in the size income distribution
- Census Bureau has published the size distribution of income since 1944
  - In 1980s, the value of major in-kind benefits included in its distribution
  - 15 income definitions were used (holding gains included)



**The way forward suggested by Arnold**

# Income Definition Needs to be Broadened

- Arnold recommends that, if we want to understand well enough the size distribution of income, a broad definitions of income should be adopted
  - Schanz (1892), Haig (1921), Simons(1938) are good examples
    - Schanz: income is the net inflow of economic ability
    - Haig: income is the money value of the net accretion to one's economic power between two points of time
    - Simons: personal income as "the algebraic sum of (1) the market value of rights exercised in consumption and (2) the change in the value of the store of property rights between the beginning and end of the period in question
- In-kind income, capital gains, the services of consumer durable goods should be considered to be included in income concept
- There still remains a valuation issue

# Economic Well-being Needs More Measures

- We start from low hanging fruits when we try to measure economic well-being in a broader sense
- Works to be done into the main accounts
  - Consumer durable goods should be treated as fixed assets
  - Capital gains should be recorded as an addenda item
  - Data should be collected on executive perquisites, other in-kind income
- Works to be done into satellite accounts
  - In kind-income should be valued using cash-equivalent values or similar measures
  - Insights from Smolensky et al. (1977) may be useful in getting the accounts to balance.
- How to assess pension plans and health insurance plans
  - This issue gets more importance together with aging population



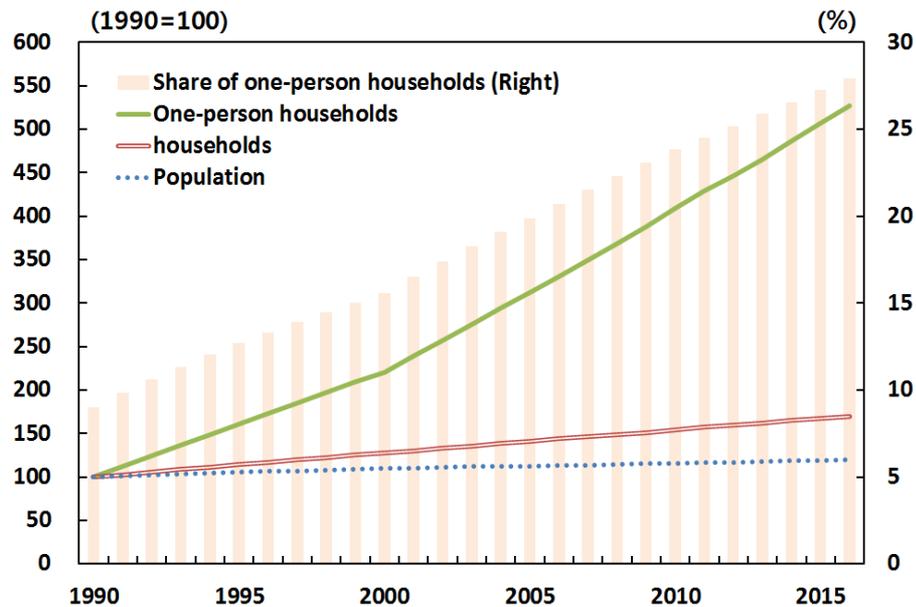
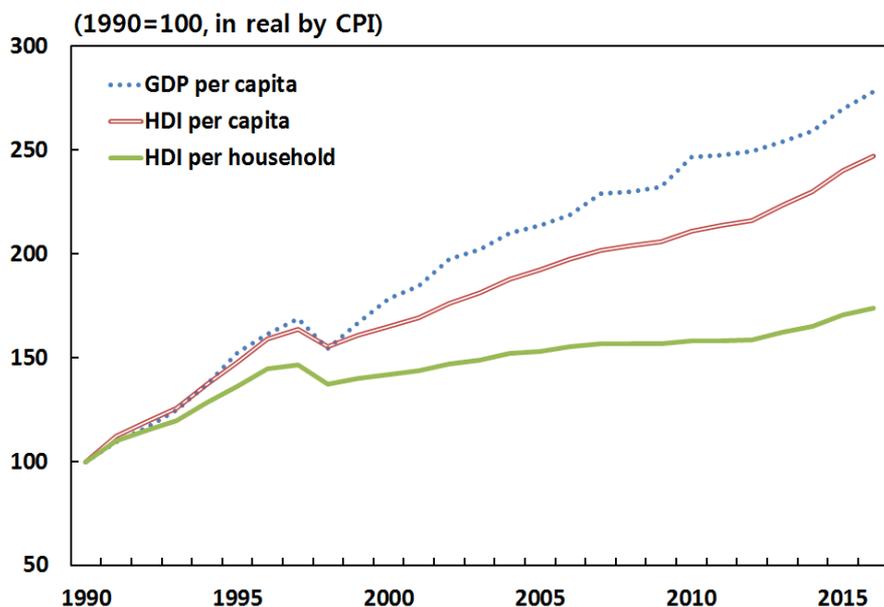
# Comments

# From Easy to Difficult : A Feasible Approach

- As Arnold suggests, let's estimate low hanging fruits first and then move to high hanging ones
- Low hanging fruits: they can be done in the current frameworks with some more efforts in data collection, estimation methods
  - Consumer durable goods, capital gains, relevant in-kind income
- Middle hanging fruits
  - Distributional information on income, consumption and wealth
- High hanging fruits: more related to the satellite accounts
  - Household works
  - Human capital
  - Environmental Accounts
  - Social capital

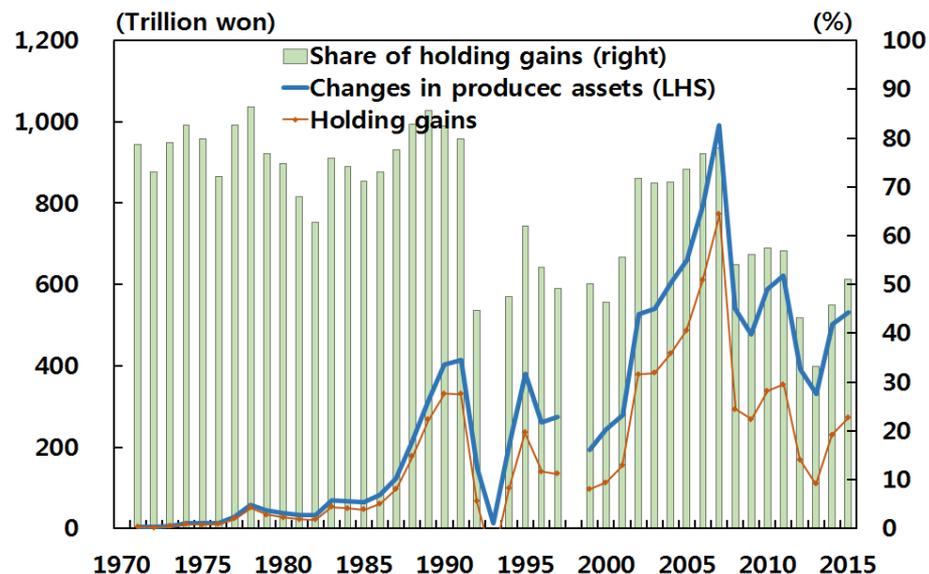
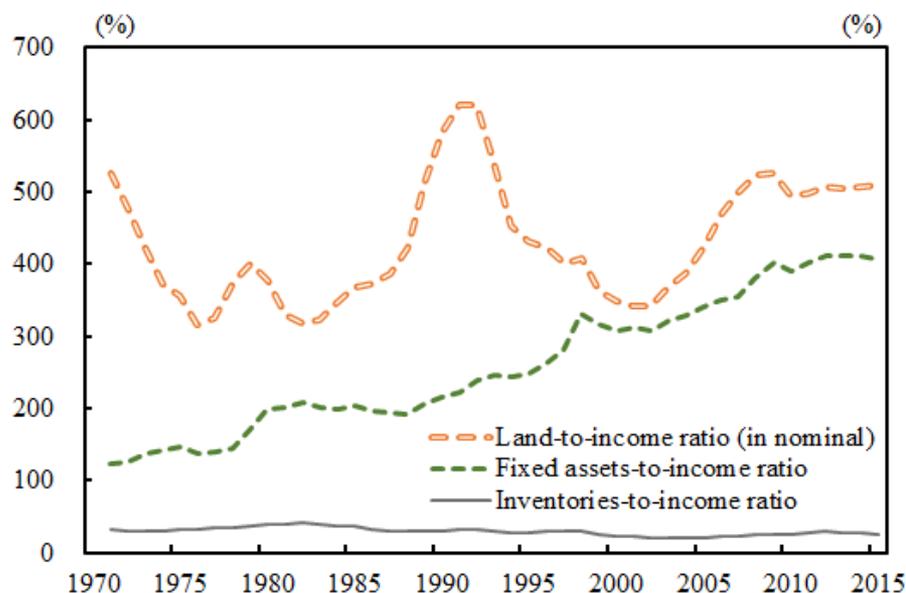
# From Macro to Individual-level

- If we move to individual level data from macro indicators, it will be more relevant to people's economic well-being
  - GDP per capita, HDI per capita, HDI per household
- Deterioration in individual household well-being can be exaggerated if upsurge in one-person household are not fully considered



# Effects of capital gains can be sizable

- I love Arnold's arguments that the income definition should be reviewed and it should include holding gains
- In Korea, holding gains has explained above 50% of changes in the value of produced assets and land, despite weakening these days
- People's everyday life is well relevant to holding gains



# Distributional information does matter

- From the economic well-being perspectives, distributional information does matter
  - In this regard, the efforts having been done and to be done by the OECD should highly be appreciated
  - Jorgenson and Slesnick (1983, 2014) or Jorgenson and Schreyer (2015) can be a feasible approach
- The Index of Economic Well-being by CSLS can also be followed (Lars Osberg 1998; Osberg and Sharpe)
- Household-equivalent measures can also be used if distributional information is fully available

# Questions

- Several important measurements efforts stopped due to budget constraints, for example the size distribution of income, measure of economic well-being, green GDP  
Why budget cuts for the programs?
- Several authors are mentioned in your paper about the definition of income. When you say about capital gains in the paper, what you mean by that specifically
- What is the priority these days within the BEA from the perspective of measuring economic well-being?



**Thank you!**