

**Measure of economic welfare (MEW)**

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# Measure of Economic Welfare (MEW)

## 1 Introduction

In the late 1960s, current lifestyles, inherited values and norms, and the “consumption society” in general were questioned. In this general mood of revolt against “old and rusted” institutions, values and norms, and economic growth as measured by Gross Domestic Product or one of its variants, became object of protest and rejection. In the United States some argued that negative growth elements, manifested by a massive deterioration of the physical and social environment, had eaten away all apparent GDP growth in the recent past. In response to these views, Nordhaus and Tobin (1972) developed the *Measure of Economic Welfare* (MEW) to better understand the relationship between economic growth and welfare.<sup>[1]</sup>

## 2 Methodology

The MEW includes corrections of conventional Net National Product (NNP) in the areas of:

- Non–market activities and leisure time. The authors valued these activities and leisure time at their presumed opportunity cost, the money wage rate. The imputation of non–paid activities and leisure time more than doubles NNP.
- A reclassification of government final expenditures into intermediates, consumption and net investment, and a reclassification of some household expenditures. Education, medicine and public health expenditures are considered gross investments that raise productivity or yield household services.
- Consumer durables. The treatment of consumer durables as capital goods turns out to have little quantitative effect.
- Instrumental or defensive expenditures. Among these expenditures are classified: costs of commuting to work, and government services such as police, sanitation, road maintenance and national defence.
- Disamenities of urbanisation. This category which includes the environmental damage costs of environmental pollution is valued by a “disamenity premium” that is estimated as the income differential between people living in densely populated locations and people living in rural locations. The “disamenity premium” is estimated to be about five percent of GDP.

## 3 Process

MEW is calculated by adjusting conventional national income accounts by the factors mentioned above. It is mainly based on a reclassification of expenditures and it therefore requires little additional research.

## 5.4 Review

### 4.1 Evaluation results

The MEW gives *ex–post* assessment of the economic performance of an economy over a time period of a year. Although the MEW contains aspects of sustainable development (certain defensive expenditures and the disamenity premium of urbanisation), its coverage and its degree of sophistication are quite limited.

### 4.2 Experiences

Nordhaus and Tobin (1972) calculated the MEW for the period 1929–1965 in the USA. In this period, per capita MEW grew slightly slower than per capita NNP (1.1 percent for MEW as against 1.7 percent for NNP). Although the MEW is, according to the authors “primitive and experimental”, the MEW has been a source of inspiration for some attempts to calculate a “green national income”, for example Leipert (1989) and Daly and Cobb (1989).

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### **4.3 Combinations**

There is little scope for combinations of the MEW and other tools and/or methods.

### **4.4 Strengths and weaknesses**

The strength of the MEW is mainly historical. It has clearly shown the deficiencies of GDP as a measure of welfare and, as already mentioned above, it has been a source of inspiration for others to calculate a green national income.

### **4.5 Further work**

Because of its limited relevance for sustainable development, it is not recommended to do further work on the MEW.

### **4.6 References**

Nordhaus, W. D. and J. Tobin (1972). Is Growth Obsolete?, In: *Economic Growth*, National Bureau of Economic Research, General Series No. 96, New York, pp.1–80.

Leipert, C. (1989). National Income and Economic Growth: The Conceptual Side of Defensive Expenditures, *Journal of Economic Issues*, 23 (3).

Daly H.E. and J.B. Cobb (1989). *For the Common Good*, Beacon Press, Boston, pp. 401–455.