Social Outcomes Have Diverged from Traditional Economic Measures

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Policy makers have traditionally relied on broad, macroeconomic measures of how the economy is performing, such as GDP growth, the unemployment rate, and inflation. These measures are enshrined in most central bank mandates, for example. Over time, consistent economic growth with stable inflation led to rising prosperity, so these indicators were a pretty good proxy of what policy makers should pay attention to. But in recent years, social outcomes have increasingly diverged from traditional macroeconomic measures.

In the US, traditional macroeconomic measures have significantly improved over the decade-long expansion, while social outcomes have rapidly deteriorated. The US is the only developed country where life expectancy is falling; it has the highest homicide rate, the most inequality, and some of the worst educational outcomes of the major developed countries. In contrast, the macroeconomic environments in Japan and Switzerland remain challenging even as social outcomes are strong and improving. Below, we share a measure of social conditions across the developed world that we have created, comprised of seven sub-gauges: employment, inequality, infrastructure, safety, health, education, and the social fabric. In recent years, differences in social conditions across the developed world have

been much more predictive of the rise of populism than traditional macroeconomic measures, reflective of public opinion and new leaders creating pressure to shift policies in order to address these issues. Given the increasing importance of social conditions as a driver of policy, and of policy as a driver of economies and markets, we will be stress testing and refining these measures going forward.

The chart and table below compare our measure of social conditions to traditional macroeconomic measures, including the GDP gap, unemployment rate, and inflation level. Across the developed world today, those with stronger macroeconomic conditions, such as the US, generally have weaker social conditions, and vice versa.

Macroeconomic vs Aggregate Social Conditions
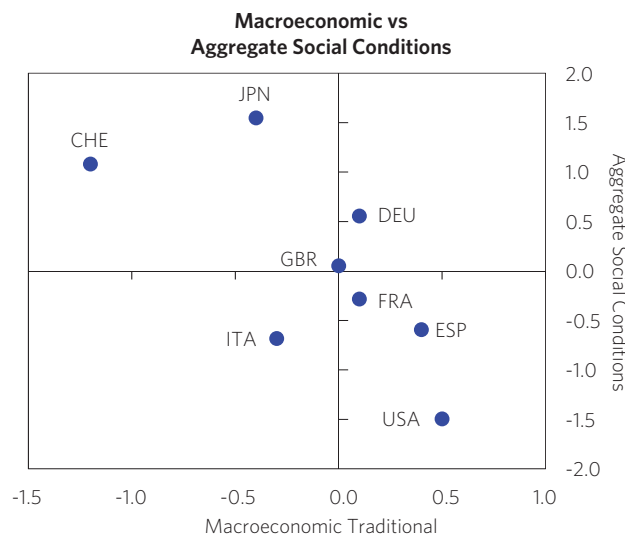
	Macroeconomic Traditional	Agg Social Conditions
USA	0.5	-1.5
ESP	0.4	-0.6
FRA	0.1	-0.3
DEU	0.1	0.6
GBR	0.0	0.1
ITA	-0.3	-0.7
JPN	-0.4	1.6
CHE	-1.2	1.1

Below, we break out our aggregate social conditions measure into its seven sub-gauges for each country. In the appendix, we include the specific indicators captured in each gauge (e.g., for inequality, we measure the Gini coefficient and the ratio of median to mean household wealth). No individual statistic is especially valuable, but collectively the indicators are helpful in tracking the broader social dynamics. Our goal was to address the inadequacy of traditional macroeconomic measures, as conveyed by Simon Kuznets, the economist who developed the first GDP measures, in his first report to the US Congress in 1934:

> *"Economic welfare cannot be adequately measured unless the personal distribution of income is known. And no income measurement undertakes to estimate the reverse side of income, that is, the intensity and unpleasantness of effort going into the earning of income. The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income as defined above."*

|	Employment	Inequality	Infrastructure	Safety	Health	Education	Social Fabric	Agg Social Conditions
USA	-0.5	-2.4	0.5	-1.7	-1.8	0.1	-0.7	-1.5
ITA	-1.6	0.3	-0.5	-1.5	0.8	-1.3	1.2	-0.7
ESP	-1.3	-0.3	-0.3	-0.6	0.9	-1.3	0.1	-0.6
FRA	-0.5	0.2	-0.4	-0.2	0.1	-0.4	-0.2	-0.3
GBR	0.1	0.1	-0.2	-0.2	-0.1	0.3	0.4	0.1
DEU	0.9	-0.4	1.4	0.4	-0.4	1.1	-0.4	0.6
CHE	1.5	0.4	0.7	0.7	1.1	0.7	-0.9	1.1
JPN	1.5	0.9	2.3	1.0	1.2	1.3	-2.2	1.6

Social Conditions

Looking at these measures over time, while the US recovered from the financial crisis by any traditional macroeconomic measure, strong aggregate growth did not translate to prosperity for much of the country, and social outcomes slid to new lows. For example, while the unemployment rate fell to historic lows, the share of working-age population in gainful employment fell. Relatedly, inequality rose, measured either by the Gini coefficient or by more qualitative measures such as falling satisfaction with housing affordability. In Japan, the macroeconomic picture remains challenging, with decades of slow growth and deflation, but social conditions are strong and have improved in recent years. Unlike in the US, Japan has historically high employment as a percentage of its working-age population, which itself is shrinking. It also has low crime rates, high life expectancy, strong education outcomes (e.g., test scores), affordable housing, and one of the lowest Gini coefficients in the developed world.
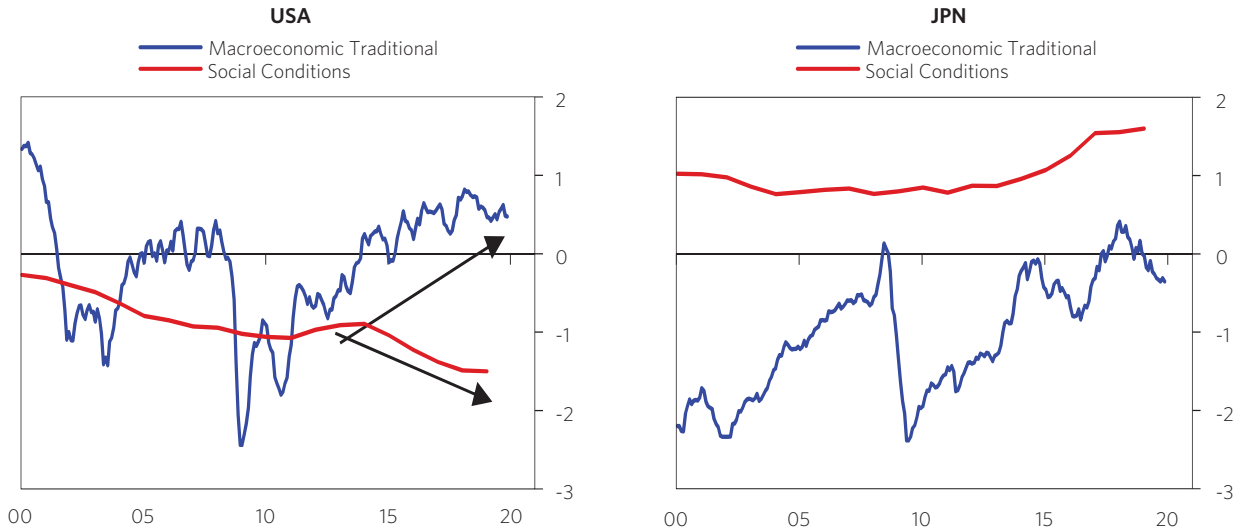
Similar dichotomies can be seen in Europe as well. Growth has recovered in France, but policy dissatisfaction remains pervasive, which makes sense in the context of weak levels of employment, bad infrastructure, and lagging education levels. Germany, in contrast, measures much more positively than France in infrastructure, housing affordability, suicide rates, and perceptions of domestic security and the degree to which other citizens can be trusted.
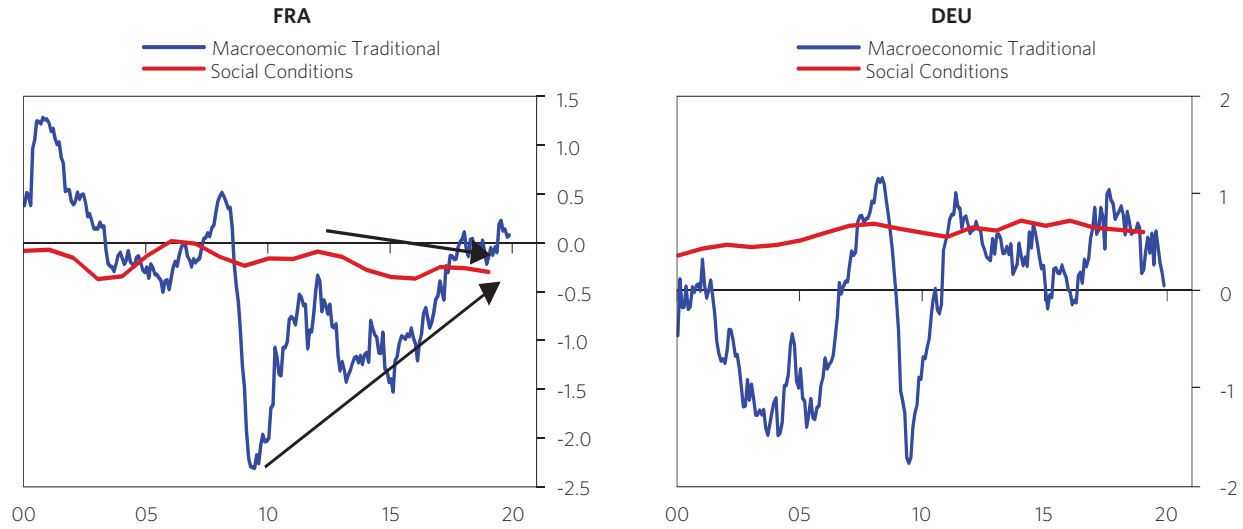

In recent years, social conditions have actually been a much better predictor of the rise in populism than traditional macroeconomic measures. As we've written about in past *Observations*, we have created an index of the share of votes received by populist/anti-establishment parties or candidates in national elections, shown below for the developed world as a whole. This populism index is currently at secular highs not seen since the Great Depression.
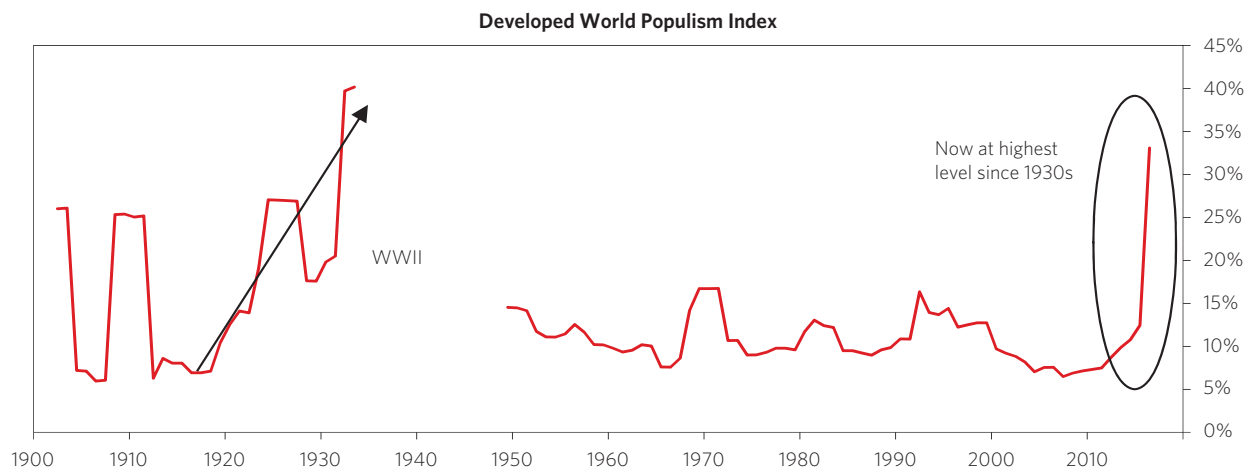
When we compare each country's social conditions to the degree of populism we've experienced in recent years, the relationship is strong. This is the case both for our aggregate measure of social conditions and for individual gauges within it, such as inequality, employment, and safety.

Aggregate Social Conditions vs Populism

Inequality vs Populism

Employment vs Populism

Safety vs Populism
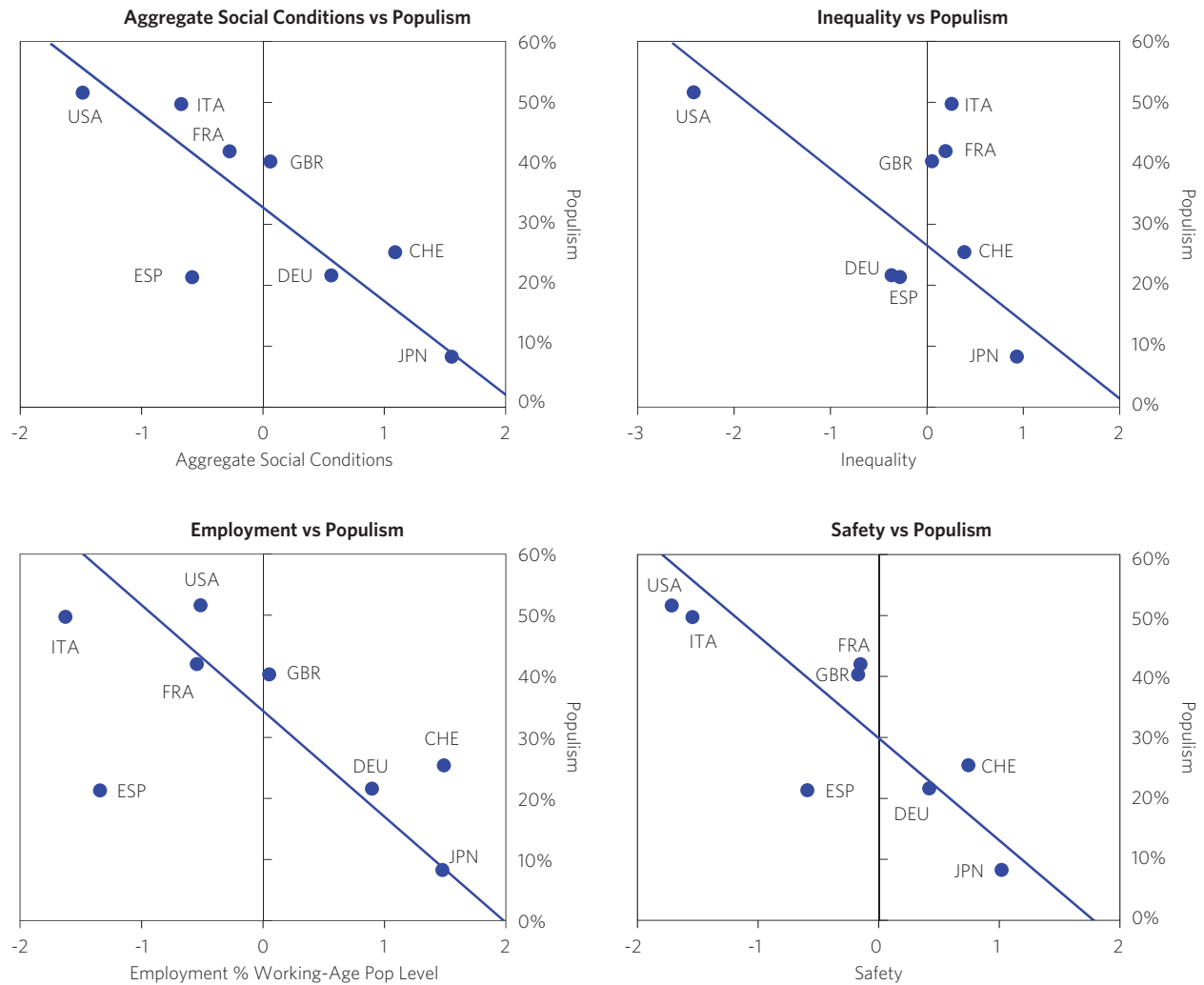
In contrast, there is virtually no relationship between the rise of populism and the progress countries have made in recent years in producing aggregate GDP growth and reducing unemployment rates.

Unemployment Growth vs Populism

GDP Per Capita Growth vs Populism
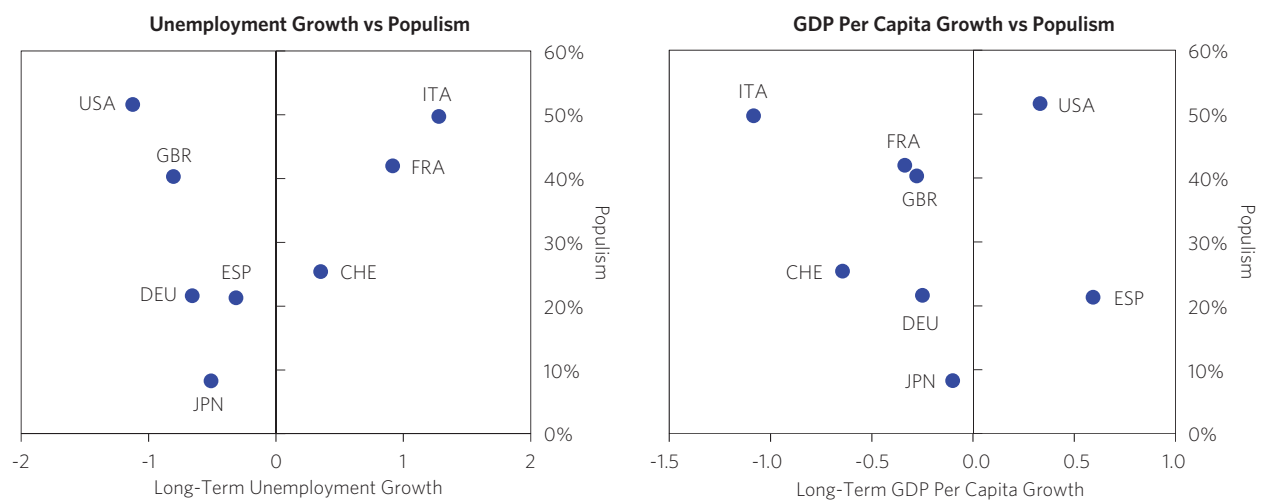
The rise in populism is a means through which pressure is being created to produce different policy outcomes from those you'd expect given traditional measures of macroeconomic performance alone. We've started to see policy diverge from classic macroeconomic measures: the US is coming off of the largest fiscal stimulation package during an economic expansion in decades, while Japan and Switzerland, both with much weaker aggregate economic conditions, have run much more complacent policy. As we've discussed in previous *Observations*, the outcomes of populism from the left (which tends to be pro-labor) are different from the outcomes of populism from the right (which tends to be pro-corporate), which are different from the outcomes of continued political division and stalemate. To us, this all points to approaching the next decade with humility and caution: not extrapolating the environment of the past decade, recognizing the wide range of potential paths from here, and taking steps to ensure acceptable outcomes across all of them.

Appendix: Individual Indicators in Our Measure of Social Conditions

Employment

- Employment as % of working-age population

Inequality

- Gini coefficient
- Household median-to-mean net wealth ratio

Infrastructure

- World Bank infrastructure metric: an index of the quality of ports, railroads, roads, and information technology
- Housing affordability: % of people who are satisfied with their housing costs

Safety

- Homicide rate
- Rule of law: World Bank indicator about the perception of fairness of law enforcement, upholding of contracts/property rights, and general law-following among people
- Perceived criminality: an assessment of the level of domestic security and the degree to which other citizens can be trusted

Health

- Premature death rate: the rate of adult deaths before 54 years old
- Life expectancy

Education

- Average # of years in education
- Average standardized test scores: relative measure of test scores of 15-year-old students from all over the world in reading, mathematics, and science

Social Fabric

- Suicide rate
- Social welfare spending as % of GDP: the social policy areas are old age, survivors, incapacity-related benefits, health, family, active labor market programs, unemployment, housing, and other social policy areas
- United Nations life satisfaction survey: % of people who answer that they are either satisfied or very satisfied with their lives