

# A MELI Manifesto

Median Expected Lifetime Income  
and Complementary Measures

by Jonathan Andreas, USA

# A MELI Manifesto

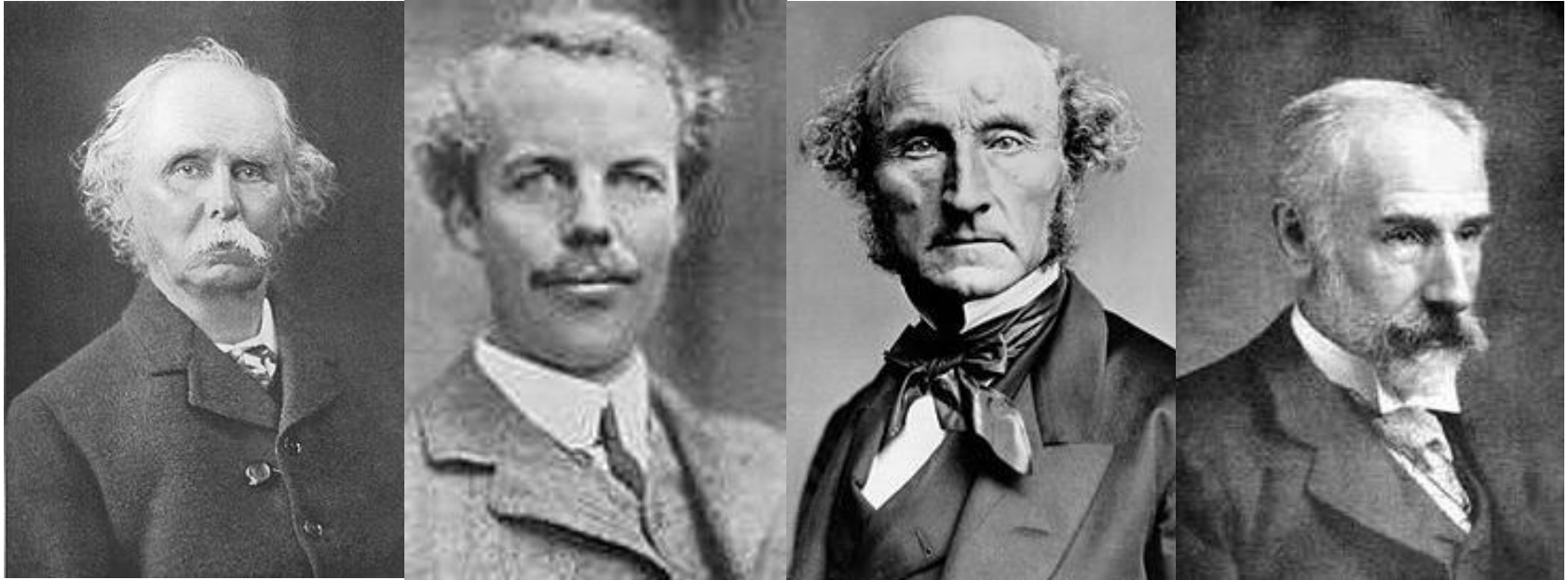
Manifest /'manə,fest/

*adjective*

**1.** clear or obvious.

How do economists define  
“the good” for society?

# < 1930s in English: Utilitarianism



Alfred  
Marshall

Arthur  
Pigou

John Stuart  
Mill

Francis  
Edgeworth

# After “Ordinal Revolution”

“Efficiency” = The good

=Money Metric Utilitarianism

(Mutation w/ constant marginal utility)

=“mmutitarianism”

What is “the economy”?

= GDP or mean GDP

1. Mean consumption.

2. Median income.

Already have 2 measures that are better than mean GDP.

1. Mean consumption.

2. Median income.

Why doesn't anyone use them?



1. Why doesn't anyone use mean consumption?

# Mmutilitarianism

Focus on money not what people do with it.

Income

preferred over

consumption

IF exactly the same inequality,  
would Qatar have had better  
*material* welfare in 2014?

2014	Mean GDP
Qatar	\$141,442
USA	\$54,398

Income = Consumption + Savings

Consumption → Experienced utility  
→ Past

Savings → Expected utility  
→ Future

# Income is a confused measure of welfare

When does the welfare happen?

Fun now

vs.

Save for future fun

2. Why doesn't anyone use median income?

# Mmutilitarianism

Focus on money not what people do with it.

## Mean

preferred over

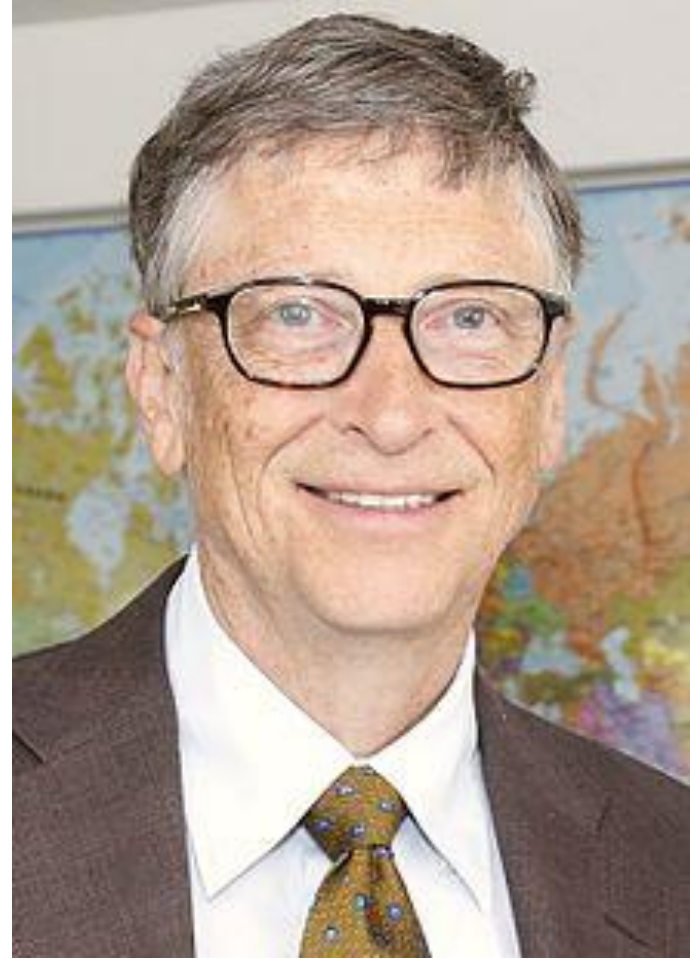
## median

Mean GDP assumes constant  
marginal utility of money

= mmutilitarianism

# Welcome Bill Gates!

What happens to:  
mean income?  
vs.  
median income?



Median income is a great way to adjust for inequality.

Evidence: Sarkozy Report



Suppose both countries were the same except for income.

Would you prefer to be randomly born into a household in Qatar?

2009	Mean GDP (rounded)	Median income
Norway	\$60,000	\$40,000*
Qatar	\$120,000	\$20,000*

\*Hypothetical

Democracy

= Dictatorship of the median

Mean income is elitist.

Median income is more  
democratic.

Median income is cheap and easy to measure.

Already have survey & tax data.

Nobody cares about  
median income.

Can you find median income data  
for **your own country**  
without Googling “median”?

Nobody cares about  
median income.

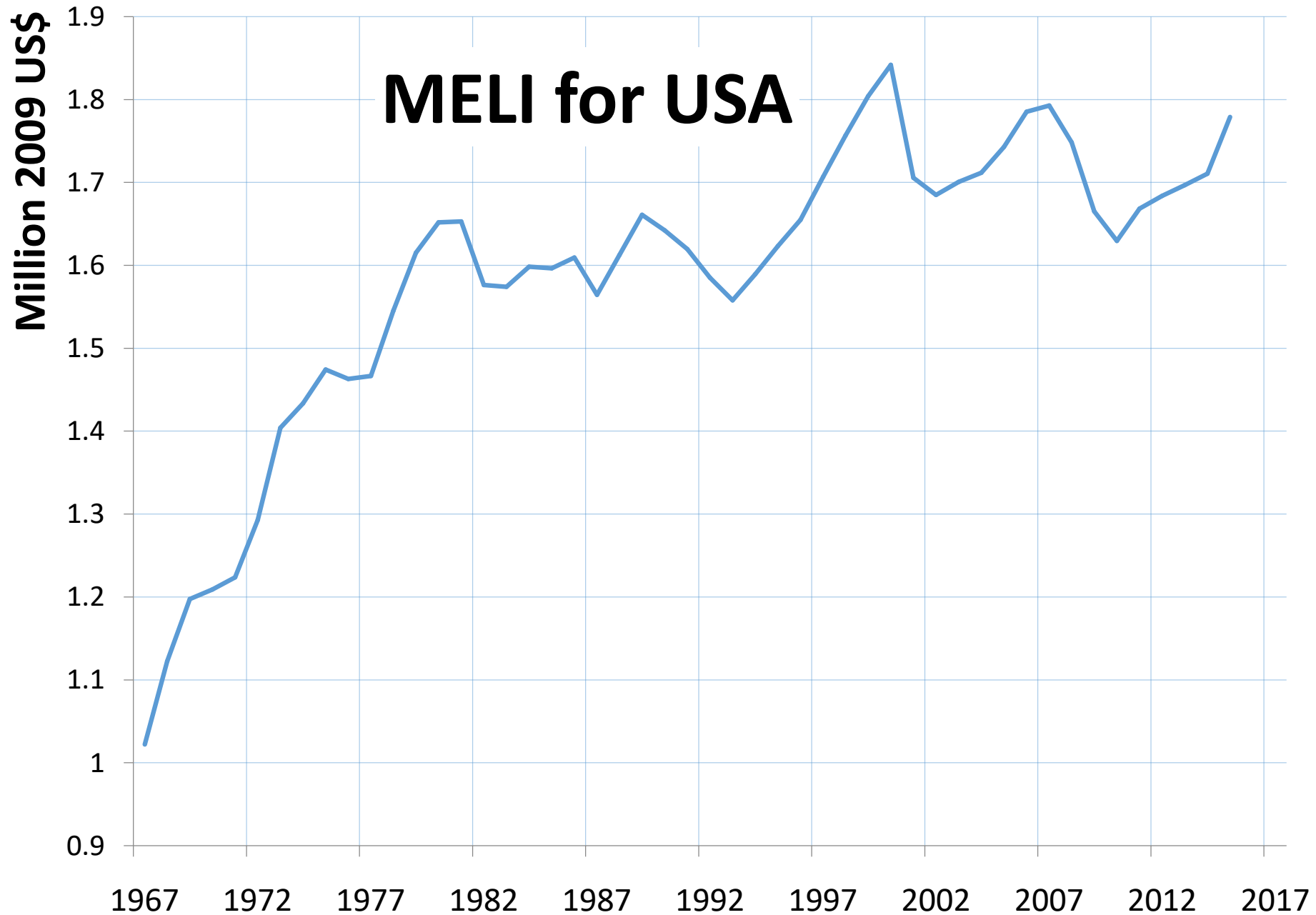
Can you find median income data  
for **any country besides your own**  
without Googling “median”?

MELI =

Median  
Expected  
Lifetime  
Income

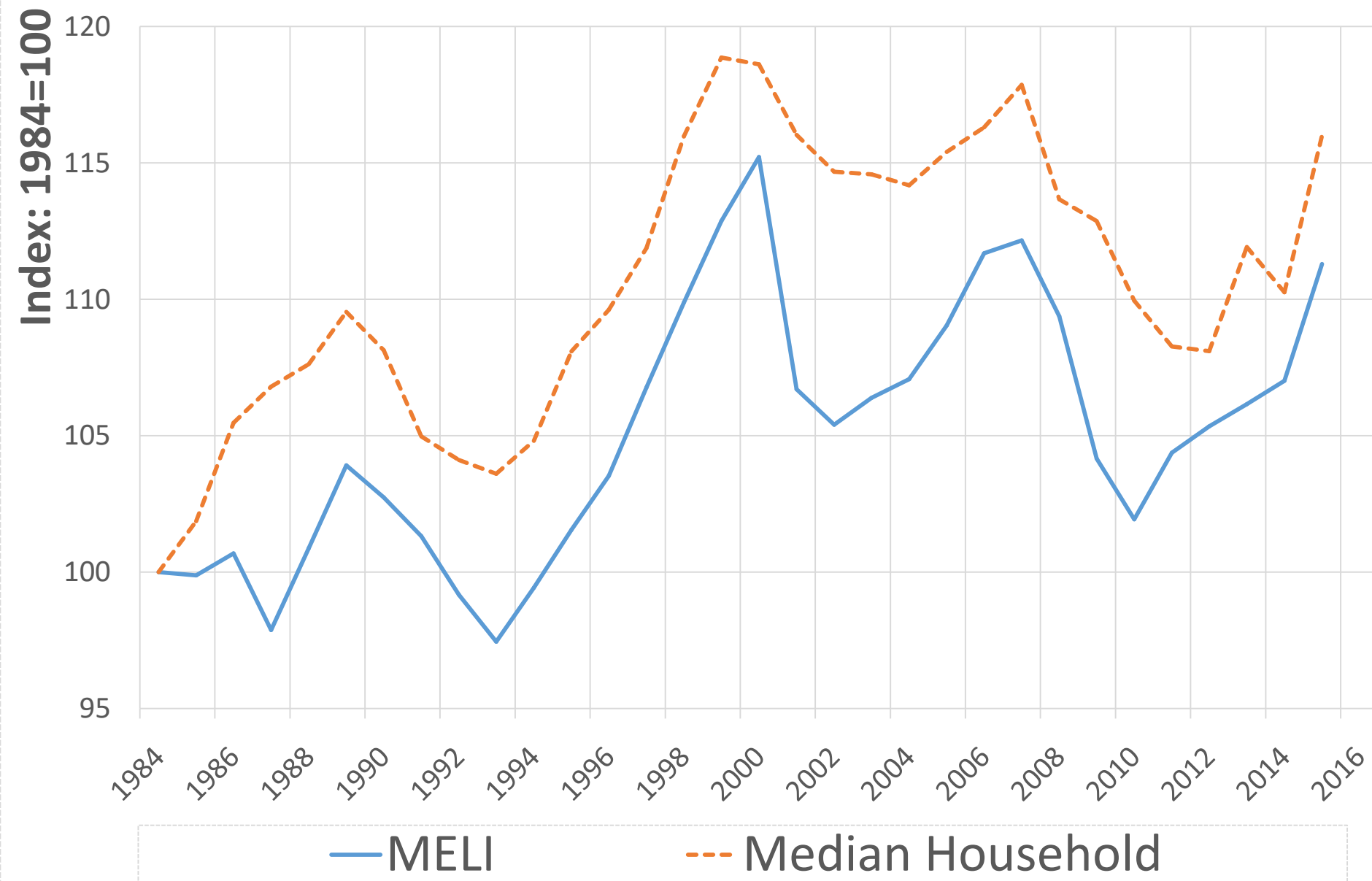
# MELI Methodology

1. Divide each household's income among its members to get individual income.
2. Calculate median individual income for each age.
3. Multiply the probability of surviving to each age times median individual income calculated in step #2.
4. Sum the expected median income at each age calculated in step #3.

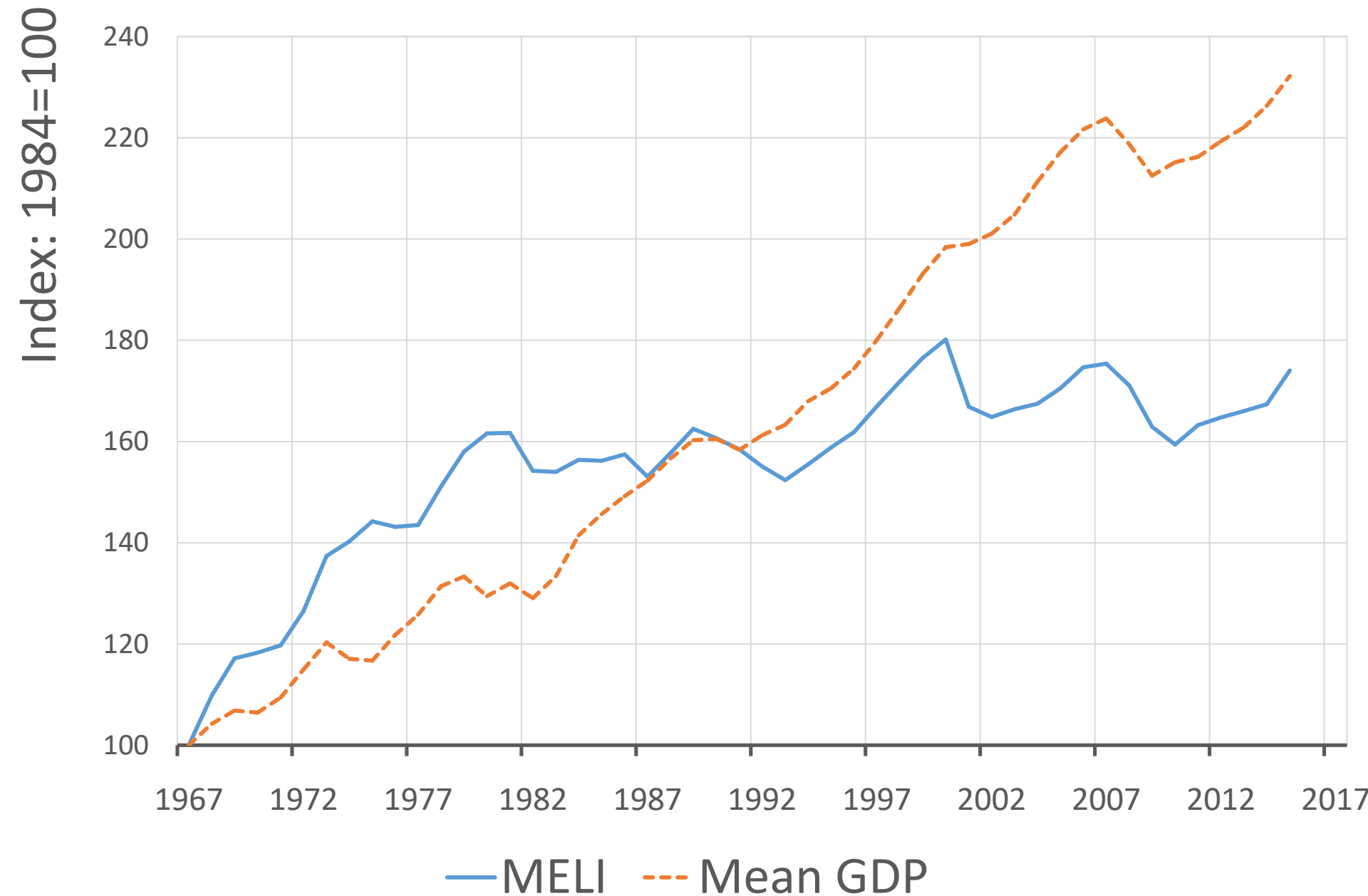




# MELI vs. Median Household Income



# Which is "The Economy"?



Mean GDP

because it  
tells a personal  
story.



## MATERIAL WORLD

A GLOBAL FAMILY PORTRAIT



BY PETER MENZEL

“Multidimensional”  
measures fail  
because they  
cannot tell a  
personal story

What is the most popular alternative  
to mean GDP?

→ Human Development Index (HDI)

$HDI = U(\text{Mean GDP, Education, Longevity})$

The HDI failed because economists are bad at making utility functions.

How good is it if the HDI goes from 40 to 30?

Trick question!

Is it bad if the HDI goes  
from 40 to 30?



Is it bad if MELI goes  
from \$400,000 to  
\$300,000?

How bad?

Why is the HDI so  
successful?

Almost three decades of \$

MELI is similar but less expensive

$HDI = U(\text{Income, Longevity, Education})$

$MELI = f(\text{Income, Longevity})$

= descriptive statistic,  
not utility function.

# MELI IS BETTER BECAUSE IT

1. Deals with inequality well.
2. Doesn't assume constant marginal utility of \$.
3. Is closer to a consumption measure.
4. Is cheaper to measure.
5. Is easier to understand intuitively.
6. Is more democratic.
7. Incorporates life-expectancy (more important than \$).
8. Will help reorient the SNA to prioritize sustainability.

# Income & Consumption.

Economists are good at measuring them in aggregate.

Go beyond GDP by measuring them better.

MELI Now

MELC with more research \$.

# **IARIW-BOK Conference on “Beyond GDP: Past Experiences and Future Challenges in the Measurement of Well-being,” April 26-28, 2017, Seoul, Korea (as of September 20, 2016)**

## Objective of Conference

The objective of this special IARIW-BOK conference is to advance the international debate on well-being measurement, both at the macro and micro levels, through an examination of past experiences and the identification of future challenges.

Papers are invited that contribute to a discussion of the following issues, among others:

- Do objective and subjective indicators of well-being show the same patterns across groups and over time and if not, what can account for these differences?
- Should the measurement of well-being be based on the extension of the SNA or are other approaches needed? If the former path forward is more appropriate what SNA-based enhancements would provide useful information on well-being developments?
- How can income and wealth inequality considerations be best integrated into well-being measurement?
- What metrics best capture inequalities in quality of life dimensions (e.g. longevity, skills, political voice, etc.)?

# 8 Conference Proposal Questions:

- “Do objective and subjective indicators of well-being show the same patterns...?” →?
- “Should the measurement of well-being be based on the ...SNA...?”  
→Yes for sustainability. No for experienced wellbeing.
- “How can income and wealth inequality considerations be best integrated into well-being measurement?”  
→Median income.
- “How can well-being metrics ...capture ...sustainability...?”  
→Net savings rate.
- “...composite measures of well-being versus dashboards...?”  
→Dashboards
- “Can statistical sources at the ...household level ...cope...?”  
→Yes, better than SNA.
- “...multidimensional measurement ...?”  
→Bad idea because nobody is good at constructing utility functions.
- “...alternative measures of well-being [&] challenges ...of communication to the general public?”  
→KISS = K e e p i s s. →MELI