Well-Being, Front and Center: A Note on the Sarkozy Report

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Introduction

As a result of French President Nicholas Sarkozy's dissatisfaction with current measures of well-being, most notably GDP, in February 2008 he asked three economists – Joseph Stiglitz, Amartya Sen (both Nobel Prize winners), and Jean-Paul Fitoussi – to create a commission to consider better ways of measuring social progress. The resulting 25-member group includes 22 scholars with advanced degrees in economics. Of the other three, two are leading contributors to behavioral economics, the third a pioneer in the study of social capital. Eight members were born in the United States, six in France, and three in Britain; four of the remainder are from developing countries. Only two members are female. The place-of-birth and sex distributions are probably reasonably representative of the composition of the economics profession at the time of the members' professional training.

The resulting Report by the Commission on the Measurement of Economic Performance and Social Progress[1] is a landmark document, most notably in its advocacy of the use of subjective measures of well-being for designing policies and assessing social progress. The magnitude of this recommendation may not be fully appreciated by non-economists. For decades economists have prided themselves on being "behaviorists", and they dismissed self-reports, insisting, in the words of Victor Fuchs, 1995 president of the American Economic Association, "that what people do is more relevant than what they say" (Fuchs 1983, 14, italics in original). Economic historian Deirdre McCloskey has characterized the attitude of economists as follows:

> Unlike other social scientists, economists are extremely hostile toward questionnaires and other self-descriptions. … One can literally get an audience of economists to laugh out loud by proposing ironically to send out a questionnaire on some disputed economic point. Economists … are unthinkingly committed to the notion that only the externally observable behavior of economic actors is admissible evidence in arguments concerning economics (1983, 514).

That a group of distinguished economists, five of them Nobel Prize winners, and most of them trained in the economic era of behaviorism, would assert that in measuring social progress serious attention should be given to self-reports of subjective feelings comes close to economic heresy. To be sure, the group does not advocate exclusive use of subjective measures, but even to admit such measures to the hallowed company of so-called objective indicators like GDP or the unemployment rate is a sharp break with a disciplinary paradigm that has dominated economists' thinking for decades. It is, in my opinion, long overdue.

The Report itself comprises three main segments, entitled "Classical GDP Issues", "Quality of Life", and "Sustainable Development and Environment". The Commission was divided into subgroups, each working on one of the three topics. Although the membership of the subgroups is not stated, it can be fairly well surmised from the references on each topic.

Readers are thoughtfully presented with three options, each of which covers all three segments: the "Executive Summary" (12 pages), a "Short Narrative on the Content of the Report" (62 pages), and "Substantial Arguments Presented in the Report" (207 pages). In what follows I draw chiefly on the Executive Summary.

To make a long story short, the Report is built on a conceptual distinction among four types of measures:

1) production (economic performance),
2) material living level (economic well-being),

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[1] Available at www.stiglitz-sen-fitoussi.fr.

3) overall (multi-dimensional) wellbeing, and
4) well-being of current versus future generations (sustainability).

Substantively, item 1, "Production", as captured in measures of GNP or GDP, gets little more than a handwave. The Report rehashes at some length long-standing problems in the measurement of these concepts: the need to take greater account of changes in the quality of goods and to improve measures of services such as those provided by retail trade and financial intermediaries, and particularly of government-provided services (health, education and the like). Nothing new or startling is said here, and no recommendations are forthcoming. In fairness, one would hardly expect solutions to issues of output measurement that have been debated since the 1930s (for example, in the series of volumes published by the NBER's Conference on Research in Income and Wealth and by the International Association for Research in Income and Wealth).

What is new, for economists at least, is the assertion that GNP and GDP are seriously deficient as measures of well-being, whether or not modified to take account of problems like those noted above. Instead, "the report advocates a shift of emphasis from a 'production-oriented' measurement system to one focused on the well-being of current and future generations" (p. 10), that is, a shift from item 1 in the list above to items 3 and 4. The Commission's rejection of GNP and GDP as measures of well-being is forceful and caustic: "To focus specifically on the enhancement of inanimate objects of convenience (for example in the GNP or GDP which have been the focus of a myriad of economic studies of progress), could be ultimately justified – to the extent it could be – only through what these objects do to the human lives they can directly or indirectly influence" (p. 8). Note, too, the extent of the shift the Commission is advocating – it is not just the addition of new statistics, but a shift in the orientation of the entire "measurement system".

As I noted, none of the Commission's specific recommendations relates to item 1, "production". Of the 12 recommendations that are offered, all are concerned with measuring well-being: five relate to item 2, five to item 3 and two to item 4.

Those bearing on item 2 – economic well-being – deal chiefly with ways in which the national economic accounts, on which GDP is based, might be modified and used "to shift emphasis from measuring economic production to measuring people's well-being" (p. 12), specifically, material well-being. In this regard, the main thrust of the recommendations is to focus on measures of the income, consumption, and wealth of households, both their per capita amounts and their distribution. Of special note is the recommendation of time-use studies as a way of obtaining insight into goods produced and consumed at home.

The Commission's heart, however, is not primarily in better estimates of material well-being. Rather, it is in broadening the measurement of wellbeing to encompass multiple domains (item 3). To this end, the Commission identifies eight "key dimensions" of well-being that "in principle…should be considered simultaneously" (p. 14):

i. material living standards (income, consumption, and wealth),
ii. health,
iii. education,
iv. personal activities including work,
v. political voice and governance,
vi. social connections and relationships,
vii. environment (present and future conditions), and
viii. insecurity, of an economic as well as a physical nature.

In the Commission's view, "All these dimensions shape people's well-being, and yet many of them are missed by conventional income measures" (p. 15). (This is a masterpiece of understatement; one may well ask whether any of these dimensions are captured by "conventional" income measures.) To remedy this situation the Commission offers a number of recommendations. It is in this connection that the Commission's radical view (for economists) of subjective measures comes to the fore. After advocating the official collection of a variety of objective measures on each of the dimensions of well-being noted above, the Commission states:

> Research has shown that it is possible to collect meaningful and reliable data on subjective as well as objective well-being. Subjective well-being encompasses different aspects (cognitive evaluations of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and worry): each of them should be measured separately to derive a more comprehensive appreciation of people's lives. … [T]he types of question that have proved their value within

small-scale and unofficial surveys should be included in larger-scale surveys undertaken by official statistical offices (p. 16).

We have here, potentially, an analog to the great breakthrough of the 1930s when the immense resources of government took over from individual scholars the measurement of national income.

The Commission does not dodge the thorny issue of the desirability of a single summary measure of well-being, recognizing the "strong demands" for such a measure. Although not going so far as to endorse any one measure, it notes that several summary measures "are already being used, such as average levels of life-satisfaction for a country as a whole [a subjective measure], or composite indices that aggregate averages across objective domains, such as the Human Development Index", and that, with new statistical efforts "[o]thers could be implemented" (p. 16). In addition, the Commission recommends that attention be given to distributional aspects of overall well-being and its various domains, as well as to interrelations among domains. The issue of interrelations is illustrated by the statement that "the consequences for subjective well-being of being both poor and sick far exceed the sum of the two effects" (p. 206, cf. also pp. 16, 55). What is especially telling about this statement is the (perhaps unwitting) primacy given to subjective well-being as the criterion of overall well-being.

The analysis of and recommendations for measures of current wellbeing, item 3, are carefully separated from item 4, "sustainability," that is, whether the current level of well-being can be maintained for future generations. And for good reason: "It is no longer a question of measuring the present, but of predicting the future, and this prospective dimension multiplies the difficulties already encountered" in the discussion of items 1–3 (p. 61). After an excellent survey and evaluation of the bewildering array of concepts and measures of sustainability, the Report ventures two fairly muted recommendations, opting for multiple economic and environmental indicators and largely rejecting both aggregative indexes of sustainability and attempts to synthesize the measurement of sustainability with that of current welfare. In the end it is the measurement of current welfare – item 3 – that is clearly the Report's central focus and contribution.

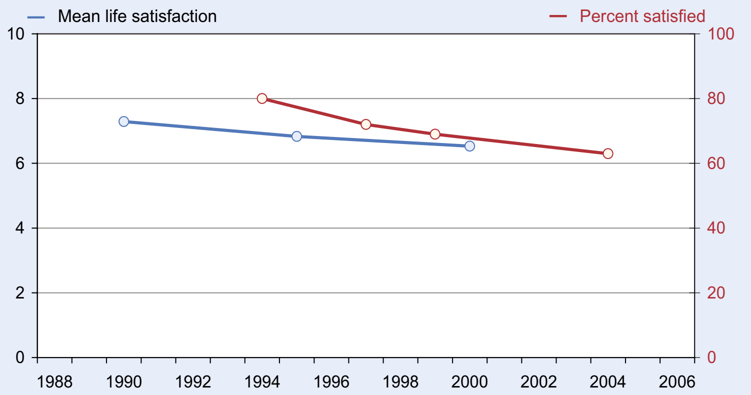
Given the wide-ranging scope of the Sarkozy Report, it is not hard to find specific points with which one may take issue. But such disagreements are, at best, secondary to the general message that is conveyed – that the commonly accepted standard of social progress, GDP, is seriously deficient. Instead of GDP, measures relating to the multiple dimensions of well-being, not just material gains, should be used in policy decisions and welfare evaluations.

The significance of this message cannot be exaggerated. Consider two examples. The World Bank's World Development Report (WDR) 2009 acclaims the benefits of urbanization, devoting three chapters to policy proposals to promote urbanization in developing countries. The benefits identified in WDR 2009 are first and foremost income gains, as workers shift from lower-paying rural work to higher-paying urban jobs. Under the heading "What this Report is not about" (World Bank 2009, 34), WDR 2009 explicitly sets aside consideration of the social and environmental effects of urbanization, effects that might well be negative. If the Sarkozy Commission were to have its way, then these effects would require at least equal attention along with income gains, and the result might well be a quite different set of policy proposals.

Or consider a 2008 World Bank report that hails as "success stories" and a model for the developing world the exceptional growth rates of GDP per capi-

Figure

LIFE SATISFACTION, CHINA, 1990–2004



Sources: Mean satisfaction from World Values Survey (2005); percent satisfaction from Kahneman and Krueger (2006,16).

ta achieved in recent decades by countries such as China and South Korea (Commission on Growth and Development 2008, 19–20). Since 1990 China has had perhaps the highest rate of economic growth ever recorded. With incomes more than tripling in a fraction of a lifetime, one might have expected the population to be fabulously overjoyed. During this period, however, satisfaction with life has not improved at all (see the Figure).

If overall life satisfaction is taken as an indicator of well-being (though not necessarily the only one), as the Sarkozy Commission recommends, one might have second thoughts about this "success story" as a model for other developing counties. At a minimum, the life satisfaction measure might lead one to wonder whether other dimensions of well-being, not reflected in the trend of GDP per capita, need to be examined. The pattern for China is no exception. A study of 37 countries worldwide – 17 developed, nine developing, and 11 in transition – reveals no significant relationship between the improvement in happiness and the long-term rate of growth of GDP per capita (Easterlin and Angelescu 2009). This is true for the three groups of countries taken separately and for all 37 countries combined.

Heretofore, social science disciplines other than economics have been less enthusiastic about the benefits of economic growth, but it is economists that have had the policymaker's ear. With the Sarkozy Report, a sea change is perhaps in the making.

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