Will measuring well-being change the way we develop the economy?

Charles Seaford
About the iED

The Institute of Economic Development (IED) is the leading professional body representing economic development and regeneration practitioners. Established in 1985, the IED provides a valuable network for economic development professionals and a wide range of support services including continuous professional development activities locally and nationally.

Funded almost entirely through member contributions, the IED is a genuinely independent voice. The Institute is increasingly taking a broader role in representing the interests of the profession through responses to government consultations, submissions to parliamentary select committee inquiries, and participation in national initiatives.

Further detail on the IED and its range of activities can be found at www.ied.co.uk.

To comment on this paper – or if you would like more information about becoming a member of the IED – please email info@ied.co.uk.

About Critical Issues in Economic Development

Initiated in 2011, this series of regular short publications provides a platform for respected commentators to contribute to public policy themes related to economic development. The topics will be relevant and vital and the papers themselves focussed, thought-provoking and expert. The series is edited by Michael Johnson, one of IED’s twelve non-executive directors. The views expressed within the series are the authors’ own and do not necessarily represent the views of the directors, staff or members of the IED.

This paper – published to coincide with the conclusion of the ONS consultation on measures of well-being – sets out the evidence that underlines the scope and significance of this policy area before proposing six objectives that policymakers might adopt.

About the Author

Charles Seaford is Head of the Centre for Well-being at the new economics foundation (www.neweconomics.org) and a member of the ONS Measuring National Well-being Advisory Forum. He would be happy to discuss the implications of this paper with economic development professionals.
In November 2010, the Prime Minister asked the Office for National Statistics (ONS) to initiate a debate on national well-being and to start to measure it. He also declared that the results would start to influence policy making. What, if anything, will this mean for economic development practice? This announcement was accompanied by some cynicism. As one senior official asked: is this going to make any difference, or is it just another ministerial speech? The honest answer is ‘it is too early to say’ but there is no doubt it could make a very substantial difference.

What is more there is quite a momentum building up behind the idea. The ‘Stiglitz Commission’ (the commission set up by President Sarkozy to report on the measurement of economic performance and social progress) had recommended in 2009 that “Statistical offices should incorporate questions to capture people’s life evaluations, hedonic experiences and priorities in their own surveys”. The new economics foundation (nef) has been advocating this for a decade and there is already a considerable body of research, both on how best to measure well-being and on the implications that adopting this measurement could have for policy.

In particular there are implications for economic objectives. But first, what is going to be measured and how might the results might be used in government?

**The new measures and how they might be used**

As of this month, the ONS will be asking 200,000 people a year four questions:

- Overall, how satisfied are you with your life nowadays?
- Overall, how happy did you feel yesterday?
- Overall, how anxious did you feel yesterday?
- Overall, to what extent do you feel the things you do in your life are worthwhile?

The answers to these ‘subjective’ questions are a particularly powerful way of capturing people’s experience – and thus government’s performance against a principal goal of policy and economic activity; improving the quality of people’s lives. What is more, they will be asked as part of the large ‘Integrated Household Survey’ which includes numerous questions about individuals’ objective conditions, from employment to housing to health. The data will be geographically tabbed and so linked to other geographically based data. Crucially, it will be possible to identify all sorts of statistical relationships between objective policy outcomes and the answers to the subjective questions.

The headline numbers that emerge from this exercise will be quite different from indexes such as the Regional Index of Sustainable Economic Well-being (and which nef helped to develop). This was an attempt to produce a single number which
Will measuring well-being change the way we develop the economy?

Encapsulated well-being, economic activity and sustainability. While such exercises have been innovative attempts to develop indices, it is now widely recognised that the meaning of the resulting headline numbers is obscure.

One purpose of the ONS consultation is to determine what the headline indicators will be. Clearly some of the drivers will be ‘social’, variables such as ‘people’s health, education, personal activities, political voice, social connections, environmental conditions and insecurity’ to quote Stiglitz again. Others will be economic. On the assumption that quality of life is a principal policy objective, it is these economic drivers that should form the foundations of economic policy. What evidence is there so far as to what these should be?

**Well-being – the evidence**

The evidence supports the following propositions relevant to economic policy.

Income is important to well-being, but only up to a certain level (which varies from society to society). That ‘certain level’ in the UK is probably around £30,000 on average, but more for a family with children.\(^1\) Research compiled by nef suggests that there are similar levels in other European countries.\(^2\) In the US the relationship between income and happiness reduces significantly at $50,000 and more or less disappears at $75,000.\(^3\) There are reasons for believing that in developed countries, and for all but the poorest, the relationship between income and well-being is primarily driven by relative rather than absolute income, implying that universal growth in incomes on its own (ie GDP growth) is a poor driver of well-being.\(^4\)

Equality is positively associated with well-being, although the relationship is complex. The diminishing returns and the importance of relative income outlined above explain much of this. There is also evidence that, controlling for income levels, inequality has a negative impact on both mental and physical health.\(^5\)

Unemployment is hugely damaging to well-being. The evidence on this is particularly clear cut. Loss of income damages well-being significantly more than a comparable gain enhances it.\(^6\) The unemployed have sharply lower life satisfaction scores (5–15 per cent lower), and these results are stronger than can be explained by the effect of income loss alone.\(^7,8\) The unemployed do not adapt to their circumstances in the way that those who gain or suffer income changes generally do, and the impacts of unemployment can be particularly enduring.\(^9,10\)

Job security is the job feature most commonly cited by employees as desirable.\(^11\) High levels of unemployment are associated with loss of well-being among the employed too, presumably in part because they create fear of unemployment.\(^12\) Casual workers enjoy lower levels of well-being than permanent full-time workers.\(^13\)
Well-being rises as hours worked rise *up to a point*, and there is a positive association between doing at least some work and well-being among the otherwise retired.\(^{14}\) But well-being starts to drop as hours become excessive.\(^{15,16}\) Over 50 per cent of European Union workers surveyed wanted to reduce their working week to an average of 34 hours and would “even accept a corresponding drop in income to achieve this”.\(^{17}\) Similarly, and not surprisingly, long commutes significantly reduce well-being.\(^{18}\)

The experience of work is itself important: good social relations are highly valued,\(^{19,20}\) as is the opportunity to do work that is interesting and that challenges the employee.\(^{21,22}\) It is worth noting that overall job satisfaction in the UK has not risen in line with national income: it fell between 1989 and 1997 and then rose back to 1989 levels by 2005.\(^{23}\)

Our pattern of consumption does not optimise our well-being. Our decisions about how to consume and spend our leisure time evidences this.\(^{24,25,26}\) The dominance of materialism in societies such as the UK leads to higher levels of mental ill-health,\(^{27}\) and lower levels of child well-being,\(^{28}\) than societies (such as some in continental Europe) that are less materialistic. Short-term debt, such as credit-card debt or payday debt, has a negative effect on well-being.\(^{29,30}\)

There are other features of society that are strongly associated with well-being – features that are essentially ‘non-economic’ but are influenced by the design of the economy. These include participation in the community and volunteering;\(^{31,32}\) seeing family and friends;\(^{33}\) social trust (i.e. trust in most other people);\(^{34}\) and living close to open green space.\(^{35}\) Conversely, pollution and aircraft noise are (unsurprisingly) negatively associated with well-being.\(^{36}\) Frequent moves of home for children are also negatively associated with well-being, both at the time and later in life.

**Some objections**

There will be objections to these proposals. At the most basic level, some people doubt whether we can measure well-being accurately, invalidating all the conclusions. A substantial concern is that it is sometimes difficult to compare answers from different groups, or from the same individual at different times. This is because the answers are influenced by expectations (which vary between groups and over time) and cultural norms (which vary between groups). There is a whole academic sub-discipline dealing with such questions, but suffice to say that the problems should not be overstated. The variations that exist between countries and over time suggest that expectations and norms do not invalidate the results.

Critics may also suggest that the reality of international competition mean constrains
our freedom to pursue the objectives identified later in this paper. Briefly there are two answers to this. First, and most fundamentally, you have to have some strategic objectives to pursue; competitiveness is not an end in itself, it is only a means of achieving good lives. This exercise defines more precisely what competitiveness is a means to. In addition there is evidence that both companies and countries are most successful economically when their strategies are anchored to broader purposes. This creates credibility, support and stability. Well-being is a stellar example of such a purpose.

**The implications for policy – six objectives**

These propositions suggest six main objectives for economic policy.

1. **A decent income for everyone**
   
The evidence is clear that simply targeting economic growth is not the most efficient way to maximise well-being. Targeting an income band is a potential alternative: in other words, there should be a target band of income based on the current income/happiness curve. The headline indicator of progress would be the proportion of the population living within this band. Achieving the lower end of the band would mean that you could participate actively in society and that you could flourish, pursuing a fulfilling life without the distractions of insecurity and poverty. At the upper end of the band would be the point at which the relationship between further increases in income and happiness almost disappears.

2. **Secure, full employment**
   
The evidence is very clear that high well-being is associated with low levels of unemployment and high levels of job security. In some circumstances there is a trade-off between these two desirable outcomes. France, for example, is said to have chosen relatively high levels of both unemployment and job security, the UK relatively low levels of unemployment and job security. The challenge is thus to improve the levels of security and unemployment at which this trade-off takes place – to shift the curve, as it were – or perhaps even to eliminate the reasons that the trade-off exists. This should be an explicit objective of economic policy and could be captured in some compound measure of these two desirable components of economic security.

3. **Stable communities and work spread throughout the country**
   
Other desirable features of society contributing to high levels of well-being – stronger relationships, social trust, community involvement, children who are able to ‘put down roots’ – are associated with stable communities. A good economy is one that strengthens existing communities rather than requiring people to uproot themselves.
The impact that materialism has on communities – and the extent to which it encourages dysfunctional geographic mobility – should reinforce policymakers’ interest in economic development in all localities that make up the UK.

4. *Satisfying work*

Economic policy at the moment is almost entirely concerned with increasing output, although creating employment is seen as a desirable consequence of that. The evidence referred to above suggests, however, that economic policy should also be concerned with the *quality* of the jobs created. The level of job satisfaction should be a specific target.

5. *Work in the right quantities*

Long working hours are damaging to well-being. They may also make constructive use of leisure time difficult, reducing the time and energy available for the kinds of active pursuits and community engagement that are associated with high levels of well-being. Reducing the average number of hours worked should therefore be an explicit target for economic policy.

6. *An economy that encourages people to do things rather than passively consume things*

The evidence shows that the quality of consumption that we are engaged in matters to our well-being. As we have seen, it is likely that individuals will be exposed to pressures that may result in consumption decisions that undermine well-being. An economic policy driven by well-being should be aimed at improving not only the quality of jobs but also the quality of consumption, with a view to steadily increasing the proportion of consumption devoted to those activities strongly linked to well-being.

*References can be downloaded through this link*