



Reassessing What Matters

Why GDP Does Not Promote Well-Being and the Case
for Alternative Measurements

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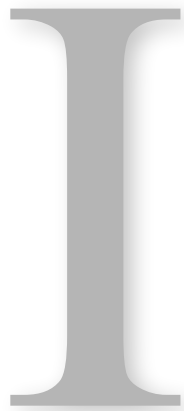
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Introduction

Writing in 1973, E.F. Schumacher observed: “It is hardly an exaggeration to say that, with increasing affluence, economics has moved into the very centre of public concern, and economic performance, economic growth, economic expansion, and so forth have become the abiding interest, if not the obsession, of all modern societies.”¹

Developed nations are primarily concerned with economic growth, as measured by Gross Domestic Product (GDP). Derek Bok writes that, “Economic growth is now the most influential single measure of our national vitality and progress.”² This paper will focus solely on developed countries, and will explore the relationship between GDP and well-being.

This paper will examine the extent to which an economy focused on improving the GDP leads to the betterment of citizens’ lives. The argument put forward is that GDP is an inadequate evaluation of well-being, and that alternative measurements are necessary in order to properly gauge real progress. It is assumed that the benefits and

¹ E. F. Schumacher, *Small Is Beautiful: Economics as If People Mattered* (New York: Harper & Row, 1975), 39.

² Derek Bok, *The Politics of Happiness: What Government Can Learn from the New Research on Well-Being* (Princeton, NJ: Princeton University Press, 2010), 63.

rationale behind increasing well-being are self-evident. There is no need to defend the importance of improving people's lives.

Before making these arguments, a necessary first step is to define well-being. This will be done in the first chapter, which will include an explanation of factors that influence well-being. Next, the relationship between well-being and economic growth within developed nations will be examined. Finally, the third chapter will examine alternative measurements to GDP.

1

Well-Being

Before analyzing the relationship between GDP and well-being, it is first necessary to establish what is meant by the term well-being. This chapter will define the concept of well-being used for this paper and then explain different understandings of the term. Finally, the factors that affect well-being – both contributing and detracting – will be analyzed. Understanding these factors is important, as the different aspects that GDP measures will be explored in the second chapter. Subsequently, understanding the influence of these factors will help to make clear whether or not GDP measures and values that which actually contributes to well-being.

What is Well-Being?

Often used synonymously with the concept of happiness, well-being is in fact a distinct concept. Aristotle wrote often about *eudaimonia*, which is typically translated to happiness in English. A more accurate translation, however, is “human flourishing.”³

³ Daniel N. Robinson, *Aristotle's Psychology* (Lincoln, NE: Joe Christensen Inc., 1999).

In contemporary life, ‘happiness’ refers more to one’s momentary feelings. A person feels happy or sad for brief periods of time. Philosophers use the term ‘happiness’ to describe a person’s life in a broader sense. Happiness, in the philosophical sense, depicts one’s life as a whole – its level of flourishing.

For the purposes of this paper, well-being will be understood as one’s overall satisfaction with his or her life.

‘Happiness’ and ‘well-being’ are often used interchangeably in literature on the topic. It is necessary to look beyond the terms in order to understand what the authors and researchers are referring to. Momentary happiness is not of concern for this paper. Pain and sadness, firstly, are a part of the human experience, and ultimately make happiness possible. It is only in relation to sadness that one knows what it is like to feel momentarily happy. Secondly, momentary happiness is a nearly impossible goal for policymakers, ultimately leading either to the plain and painless dystopia outlined in Lois Lowry’s *The Giver*, or a hedonistic world comprised of empty, momentary, fleeting pleasures.

Overall satisfaction with one’s life is a more holistic understanding of well-being. Higher well-being means people are more content with their lives in general. Well-being goes beyond hedonistic pursuits (short-term pleasure) since it refers to one’s life as a whole. Momentary pleasures are still a part of one’s life, but they may not be the most important aspect. If momentary pleasures contribute to overall life satisfaction, then they are worth pursuing according to this definition of well-being. It does seem, however, that endlessly pursuing hedonistic goals will never satisfy someone’s life as a whole. A

person is only satisfied for a brief moment before desiring more. By definition, hedonism can never bring lasting satisfaction.

Researchers typically analyze well-being by asking how satisfied people are with their lives. Researchers are now able to do what utilitarian Jeremy Bentham had wanted – quantifiably measure well-being. In large numbers, asking people how satisfied they are with their lives is quite accurate in quantifiably measuring societal well-being.⁴ Criticism of this approach will be addressed more fully in the third chapter.

It need also be mentioned that the well-being defined in this paper is not strictly utilitarian (maximizing happiness for the greatest number of people). Yes, well-being should be maximized for individuals and across society; however, it must not come at the expense of important values such as equal rights or free speech. A common and justified critique of utilitarianism is that it allows the majority to exploit the minority, thus leading to greater overall well-being. In other words, well-being might be maximized overall if the majority white population enslaves the minority black population. Utilitarianism goes beyond democratic rule because it has the potential to completely ignore the voice of the minority. In a democracy, every person's voice – in theory – is valued, and minority groups can have significant influence. Ethically, it would be very difficult to contend that one person should suffer so that ten people can marginally increase their well-being. Humans are autonomous beings born with innate rights that must first be protected.

The Canadian Charter, American Constitution and other foundational documents offer logical starting points to the problem of the tyranny of the majority. Ensuring the rights guaranteed in the Canadian Charter of Rights and Freedoms must be done before maximizing well-being. If the innate rights of one individual are sacrificed in order to

⁴ Bok, *The Politics of Happiness*, 204.

increase the happiness of other more prioritized individuals, society has lost its moral foundation. Individual rights might seem to justify the right of a person to maximize their profit by polluting a river, but this in fact violates both rights-based and utilitarian arguments. More people are adversely affected than benefit, and the right to life is put at risk for many individuals.

The Charter and Constitution must also not be thought of as perfect. Though important starting points for ensuring the rights of individuals, they can continually be improved. The slave-owning writers of the American Constitution were flawed individuals. The rights they outlined must logically be extended to people of all genders, races, abilities and sexual orientations.

Utilitarians might even make the argument that having rules protecting minorities does increase overall well-being. Indeed, some studies have found that greater tolerance for homosexuals and other minority groups increases national well-being.⁵ Nevertheless, there is no guarantee that it does, and thus safeguards that ensure people's rights are an important function of government. Increasing well-being is an important, and achievable, goal for governments; however, the rights of minorities must not be compromised. Even other government pursuits are still necessary. For example, if a homeless person is content, is it not unethical to ignore their plight? Amartya Sen contends that people adapt to their situations, even if the situation is unjust.⁶ Ignoring such individuals would lead to unsettling and unethical results.

Sen developed the capability theory in the early 1980s partly as a critique of the utility approach, which concentrates on happiness. In *Inequality Reexamined*, Sen writes,

⁵ Ronald Inglehart et al., 'Development, Freedom, and Rising Happiness: A Global Perspective (1981–2007)', *Perspectives on Psychological Science* 3, no. 4 (2008): 271.

⁶ Amartya Sen, *On Ethics and Economics* (New York: B. Blackwell, 1987), 45–46.

“A person’s capability to achieve functionings that he or she has reason to value provides a general approach to the evaluation of social arrangements, and this yields a particular way of viewing the assessment of equality and inequality.”⁷ In other words, instead of simply trying to maximize utility, the key idea is that “social arrangements should aim to extend people’s capabilities – their freedom to promote or achieve what they value doing and being.”⁸

Sen contends that people do not always pursue their own self-interest, but often choose wider, often altruistic, concerns.⁹ While this is certainly true, and is a legitimate critique of both economic and utility approaches, altruism does not actually detract from well-being. In fact, doing good for others has been shown to increase people’s satisfaction with their lives. Participants in a study did five acts of kindness a week over a six week period, and these people were found to have a higher well-being compared to control groups.¹⁰ In fact, scientists are reconsidering the idea of the ‘selfish gene’ and are exploring the evolution of altruism and kindness.¹¹ What this means is that human beings do act altruistically – despite what economic models suggest – and that doing so is not mutually exclusive from well-being.

⁷ Amartya Sen, *Inequality Reexamined* (Oxford University Press, 1995), 4–5.

⁸ Severine. Deneulin and Lila. Shahani, *An Introduction to the Human Development and Capability : Approach* (London: Earthscan Ltd., 2009), 31.

⁹ Amartya Sen, *Commodities and Capabilities* (Oxford: Elsevier Science Publishers, 1985), 18–20.

¹⁰ S. Lyubomirsky, K. M. Sheldon, and D. Schkade, ‘Pursuing Happiness: The Architecture of Sustainable Change’, *Review of General Psychology* 9, no. 2 (2005): 111–131.

¹¹ George Vaillant, *Spiritual Evolution: How We Are Wired for Faith, Hope, and Love*, Reprint. (New York: Three Rivers Press, 2009).

Generating Well-Being

What Philosophers Say Contributes to Well-Being

Exactly *how* to achieve well-being is a question that has been wrestled with for thousands of years. According to Homer, well-being was luck. People's lives were either pleasant or miserable, depending on the will of the gods. Aristotle held a different opinion, believing that a person could affect their well-being by pursuing truth:

"Happiness is an activity of the soul in accordance with perfect virtue."¹² The happiest life, in other words, consists of contemplating truth. Well-being is pursuing everything that makes us human – reason, truth and living in community. Aristotle believed that a person could improve their well-being by leading a moral life. Aristotle's belief – that well-being was not entirely good fortune – has carried on to modern day. He argued for the incredible importance of pursuing *eudaimonia*: "Happiness, then, is clearly a something complete in itself, and all-sufficient, forming the end of all things done by man."¹³ In other words, the purpose of human life is to procure happiness.

Epicurus, who was born within Aristotle's lifetime, reaffirmed the importance of well-being. Believing it to be life's sole aim, Epicurus said that all that was required for true happiness was a life among friends, a body free of pain and peace of mind. Epicurus did not deny the existence of the gods, but he did not believe that they exercised their will on men and women. People had some control over their level of well-being.

Medieval views on well-being again emphasized the importance of the moral life. Living well and knowing God would lead to eternal happiness following death. A person might even suffer on Earth, but they would be rewarded with true happiness in the

¹² Aristotle, *The Nicomachean Ethics of Aristotle*, trans. Robert Williams (London: Longmans, Green, and Co, 1869), 30.

¹³ *Ibid.*, 15.

afterlife. Thomas Aquinas said that only two things were required for well-being: virtuous action and sufficiency of material goods.¹⁴ According to Aquinas, money is only useful insofar as it is a means to an end. Once increasing income becomes a goal in and of itself, this detracts from a person's well-being and is wrong in the eyes of God.

In the mid-18th century, Scottish philosopher Frances Hutcheson was the first to describe the best society as the one that had the greatest amount of happiness. Jeremy Bentham took this idea further, arguing for utilitarian reforms. Bentham's utilitarian ideas inspired Thomas Jefferson, who wrote the famous phrases in the Declaration of Independence on the right to life, liberty and the pursuit of happiness. Bentham understood happiness as pleasure over pain, and even proposed a 'felicific calculus,' which was an algorithm that he believed could test the happiness factor of any action.¹⁵ Today, research has progressed to more accurately measure well-being across nations.

The concept of well-being has changed over time. Darrin McMahon studied the history of the idea of happiness and outlined the ways in which happiness was believed to be achieved: luck (Homeric), virtue (classical), heaven (medieval), pleasure (Enlightenment) and materialism (modern).¹⁶ While the ways thought to achieve well-being have changed throughout history, the idea that it is a worthy goal has not. Nevertheless, there are some commonalities among historical philosophers on how to achieve well-being. Philosophers have questioned the importance of income growth for

¹⁴ Mark Anielski, *The Economics Of Happiness* (Gabriola Island, BC: New Society Publishers, 2009), 55.

¹⁵ Jeremy Bentham, *The Principles of Morals and Legislation* (Buffalo N.Y: Prometheus Books, 1988), chap. 4.

¹⁶ Darrin M. McMahon, *Happiness: A History*, 1st ed. (New York: Grove Press, 2007).

thousands of years.¹⁷ Philosophers – including Bentham – have also noted the importance of health, friends, morality and God.

What Empirical Research Says Contributes to Well-Being

No longer are only philosophers questioning what comprises the good life. Interestingly, empirical research on well-being has confirmed much of what philosophers have been saying for thousands of years. As will be shown in this chapter, evidence suggests that money and materials do not increase well-being, while relationships, health and doing good for others does.

Biological factors do have a role in people's well-being, but they are not completely deterministic; human and government interventions can also have a substantial influence on well-being. East Germany offers a clear example, as the well-being of East Germans after the collapse of the Berlin Wall is dramatically higher than it was before the USSR broke apart.¹⁸ Genetics, including one's childhood and parents, is estimated to account for approximately 50 percent of one's well-being; the remaining percentages are variable factors, most of which can be altered.¹⁹

Outside of one's inherent temperament, researchers have found six main factors that account for the widest discrepancy in people's well-being: marriage, social relationships, employment, perceived health, religion and quality of government.²⁰

In terms of marriage – and many of the correlational findings – it is often unclear in what direction causation runs. Marriage may not *cause* happiness; it may simply be that the happiest individuals are the ones that are more able to get married and stay

¹⁷ Bok, *The Politics of Happiness*, 207.

¹⁸ Ibid., 52–53.

¹⁹ Anielski, *The Economics Of Happiness*, 73.

²⁰ Bok, *The Politics of Happiness*, 17.

married. However, research suggests that causation tends to run in both directions. A 2003 study done by Alois Stutzer and Bruno Frey found that married individuals are much happier than unmarried individuals, and that is largely because happier people are more likely to get married.²¹ However, the “prevailing opinion” of researchers is that the positive relationship between marriage and well-being is mainly due to the beneficial effects of marriage.²² This suggests that, “marital intimacy, commitment, and support really do – for the most part – pay emotional dividends.”²³

Unsurprisingly, other relationships also have a major influence on well-being. A network of friends and family will help people deal with misfortune and depression, strengthen immune systems and give individuals a sense of worth.²⁴ A study of soldiers in the army found that those in large units with changing memberships experienced less satisfaction and worse physical and mental health than those in twelve-person a-teams.²⁵ People are social beings, so it is no wonder that community contributes to well-being. In fact, a 2006 study found that friendship variables accounted for 58 percent of the variance in people’s happiness.²⁶

Employment is also a considerable contributor to well-being. There is, again, a possible problem of causality in analyzing the relationship between employment and well-being. Happier individuals are more adept at finding and maintaining employment. Nonetheless, research does suggest that being employed leads to satisfaction with one’s

²¹ A. Stutzer and B. S. Frey, ‘Does Marriage Make People Happy, or Do Happy People Get Married?’, *Journal of Socioeconomics* 35, no. 2 (2006): 326–347.

²² David G. Myers, ‘Close Relationships and Quality of Life’, in *Well-Being: The Foundations of Hedonic Psychology*, ed. Daniel Kahneman, Ed. Diener, and Norbert Schwarz (New York: Russell Sage Foundation, 1999), 382.

²³ Ibid.

²⁴ Bok, *The Politics of Happiness*, 20.

²⁵ Myers, ‘Close Relationships and Quality of Life’, 380.

²⁶ Meliksah Demir and Lesley Weitekamp, ‘I Am so Happy ’Cause Today I Found My Friend: Friendship and Personality as Predictors of Happiness’, *Journal of Happiness Studies* 8, no. 2 (2007): 181–211.

life. Economist Andrew Oswald says that unemployment is the “key source of unhappiness in the affluent industrialized countries.”²⁷

For people that are employed, insecurity about one’s job is a major reason behind job dissatisfaction.²⁸ If a person is anxious about possible termination, their well-being, and productivity, will be lower than those that feel stable in their position. In terms of work, employees are most satisfied when they are given goals that are challenging but not out of reach. If work is nearly impossible and if employers use punishment instead of reward, employees will be unhappy.²⁹ Also, parents’ full-time employment during the first six months of a baby’s life leads to that child having lower cognitive ability.³⁰ Stable, challenging employment with plenty of parental leave appears to be the most conducive to well-being.

Health’s impact on well-being is obvious, and there is an abundance of literature on the topic. Relevant to this paper is research done on the social determinants of health – both physical and mental.

First, healthier populations exist in countries with universal health care systems. More market-based approaches to health care, such as in the United States, simply do not work as well. The United States spends far more per capita on health care than any other country on the planet, yet it ranks below other developed countries in most aspects of health care, including quality of care, access to care, equity, life expectancy at age 60, infant mortality and deaths preventable by proper care, among others.³¹ In fact, infant

²⁷ Anielski, *The Economics Of Happiness*, 224.

²⁸ Bok, *The Politics of Happiness*, 111.

²⁹ Gardiner Morse, ‘The Science Behind The Smile. (cover Story)’, *Harvard Business Review*, January 2012, 87.

³⁰ Bok, *The Politics of Happiness*, 146.

³¹ *Ibid.*, 106.

mortality in the United States is 6.6 per thousand births compared to 4.8 in Cuba, a much poorer country that spends only a fraction of what the United States spends on health care.³² President Obama's health care reforms have helped to give health coverage to millions of previously-uninsured Americans; however, it does not go far enough and still relies on employer-provided health coverage instead of a universal system.

Health is also affected by a country's level of equality. Richard Wilkinson and Kate Pickett detail their thirty years of research in *The Spirit Level*, which shows that a whole host of problems are much less likely in egalitarian societies. Physical and mental health problems can be partially explained by vast disparities in wealth.³³ Even factors such as obesity are exacerbated by inequality. Some of these health variances can be explained by stress levels, which can be tangibly measured by observing levels of hydrocortisone that people produce in their blood and saliva. Since income is the most tangible measure of someone's "worth" in Western countries, large gaps in income translate to more emotional and psychological stress.³⁴ A healthy population and, therefore, a population with higher well-being, can be affected by national policies that encourage egalitarianism.

Reducing inequality has even more benefits beyond health. Violence, crime, educational performance and social mobility are all negatively impacted by inequality, as outlined in *The Spirit Level*. Efforts to reduce inequality have resulted in prosperity for countries of the world.³⁵ Well-being, for a variety of reasons, is significantly increased by

³² United Nations. Statistical Division., 'Statistical Yearbook', no. 54 (2009).

³³ Richard G Wilkinson and Kate Pickett, *The Spirit Level : Why Greater Equality Makes Societies Stronger* (New York: Bloomsbury Press, 2010).

³⁴ Linda McQuaig and Neil. Brooks, *The Trouble With Billionaires: Why Too Much Money at the Top Is Bad for Everyone* (Toronto: Viking Canada, 2010), 158.

³⁵ Morse, 'The Science Behind The Smile. (cover Story)', 87.

reducing wide gaps between rich and poor. Also, it does not increase well-being in a strictly utilitarian sense, where more people benefit than are harmed. It is certainly true that previously marginalized groups have more power and opportunities in a more egalitarian society; however, even those at the top of the income bracket benefit from increased equality. Egalitarian societies have less crime and violence, which benefits everyone. Violent behaviour is often, “a response to threats or perceived threats to an individual’s pride, threats that leave him feeling ashamed, put down, or humiliated.”³⁶ Large income gaps do not excuse criminal behaviour, but they do help to explain some of the root causes. It does not matter how rich a country is; the United States and Norway are both very rich countries with high levels of GDP per capita. What matters more is the distribution of income within the countries.

Part of the reason inequality so negatively impacts well-being is that people’s happiness is very dependent on their situation relative to those around them. It does not matter whether an individual makes \$100,000 a year or \$10 million a year; their satisfaction with life will be less if their neighbour has a higher income than they do. “It seems we get used to what we have, and then would like at least as much as those around us or more; we covet our neighbours’ material wealth.”³⁷ Karl Marx understood this, saying, “A house may be large or small; as long as the surrounding houses are equally small, it satisfies all social demands for a dwelling. But if a palace rises beside the little house, the little house shrinks into a hut.”³⁸ Thus, promoting egalitarianism can have profound effects on well-being. It is no wonder that more equal societies, such as Norway

³⁶ McQuaig and Brooks, *The Trouble With Billionaires: Why Too Much Money at the Top Is Bad for Everyone*, 160.

³⁷ Anielski, *The Economics Of Happiness*, 216.

³⁸ Karl Marx, *Wage-Labour and Capital* (Rockville, MD: Wildside Press, 2008), 33.

and Denmark, have higher levels of well-being than more unequal societies, such as the United States and United Kingdom.

Religion's impact on well-being need also be mentioned. Individuals with faith live longer, healthier and commit less crime.³⁹ Studies indicate that there are two independent reasons for the higher well-being. Firstly, belonging to a community of worshippers and attending church activities raises self-esteem and helps during times of challenge. Secondly, belief in God actually increases well-being on its own. According to a study done by Richard Layard, belief in God can be attributed to a 3.5 point gain in happiness on a 100-point scale.⁴⁰

Finally, quality of government is responsible for the sixth highest variance in people's well-being. As measured by the World Bank's Governance Effectiveness indicator, it can be seen that there is a strong correlation between a country's quality of government and its people's well-being.



Figure 1: Government Effectiveness and Life Satisfaction

Source: World Bank Governance Indicators and New Economics Foundation

³⁹ Abbot L. Ferris, 'Religion and the Quality of Life', *Journal of Happiness Studies* 3, no. 3 (2002): 199.

⁴⁰ Bok, *The Politics of Happiness*, 22.

Correlation does not necessarily mean causation; however, research does suggest that as quality of governance improves, so too do the people's well-being. Soviet-bloc countries saw an initial drop in well-being due to the abruptness of the fall of the Wall, but as time went on, the increased freedom and democracy led to significantly heightened well-being.⁴¹

Other factors, such as giving to charity and helping others, also contribute to one's well-being.⁴² Perhaps this suggests that a society focused on individualism runs contrary to the promotion of well-being.

What Empirical Research Says Does Not Contribute to Well-Being

The factors that contribute to well-being are important for policymakers to understand, although they are not unexpected findings. More surprising are the factors that actually detract from well-being – namely, money and material possessions.

Western society places an enormous amount of importance on one's money and belongings. People attempt to acquire both in order to feel satisfied. The problem, however, is that when one's goal is to become wealthy, it becomes impossible to achieve. People tend to compare their wealth in relation to those around them, so they are left wanting more and feeling unsatisfied even if they are wealthy on a global scale. British economist Andrew Oswald wrote, "I was raised in an economic classroom to believe that money buys quite a lot of happiness. I have to revise that opinion."⁴³

There is indeed a relationship between income and well-being. In general, the higher a person's income, the higher their satisfaction with life. This correlation, however, does not answer the question of whether or not more money leads to higher

⁴¹ Ibid.

⁴² Ibid., 30.

⁴³ Anielski, *The Economics Of Happiness*, 215.

well-being. Those living in poverty would certainly not be satisfied with their lives, and happier individuals might simply advance their careers more easily. Despite steady rises in per capita income across most developed countries, satisfaction with life has remained relatively constant for the past fifty years. On a four-point scale, average life satisfaction in Japan was 2.7 in 1958. In 1991, after years of higher income and affluence, life satisfaction still scored 2.7.⁴⁴

Analyzing individuals as their income fluctuates reveals a startling finding: most people's satisfaction with life changes very little with the rise and fall of their income as they advance through their careers and eventually retire.⁴⁵ This conclusion from Ed Diener, Eunkook M. Suh, Richard E. Lucas and Heidi L. Smith is indeed profound. If raising one's income has no, or at most marginal, effects on well-being, the importance placed on making money needs to be reconsidered.

Daniel Kahneman and Alan B. Krueger studied the same question, yielding similar results. They found a very weak relation between income and life satisfaction, and that people overestimate the importance of income.⁴⁶ Money's effect on well-being is mostly temporary. The researchers also concluded that previous studies that found a stronger relationship between income and well-being suffer from a "focusing illusion" in which people attribute a greater importance to one factor after it was brought to mind by the questioner.

⁴⁴ Bruno S. Frey and Alois Stutzer, 'What Can Economists Learn from Happiness Research?', *Journal of Economic Literature* 40, no. 2 (2002): 407.

⁴⁵ Ed Diener et al., 'Subjective Well-being: Three Decades of Progress.', *Psychological Bulletin* 125, no. 2 (1999): 276–302.

⁴⁶ Kahneman D et al., 'Would You Be Happier If You Were Richer? A Focusing Illusion.', *Science (New York, N.Y.)* 312, no. 5782 (2006): 1908–1910.

Richard Easterlin had similar findings, concluding that people's well-being does not change after retirement, despite significant changes to income.⁴⁷ Robert Lane, a professor emeritus at Yale University, found that the correlation between income and happiness in developed countries was close to zero and sometimes negative.⁴⁸

While money's effect on life satisfaction is marginal at best, its effect on day-to-day happiness is even less. There is a threshold of sufficiency where additional income no longer translates to higher emotional well-being. A recent study out of Princeton University found that this threshold income level is \$75,000 a year.⁴⁹ Any additional income beyond \$75,000 has no effect on a person's day-to-day happiness.

It seems that people get used to what they have. Human beings have an extraordinary ability to adapt to their respective situations, whether positive or negative. In comparing recent amputees and lottery winners, researchers found that both groups experienced momentary changes in their happiness, but that they reverted back to their original level of well-being after three years.⁵⁰

First described by Brickman and Campbell in 1971, adaptation theory suggests that people react only briefly to good and bad events, soon returning to neutrality.⁵¹ People strive for a goal, thinking that it will satisfy them, only to reach it and feel the need to meet a new goal. Adaptation theory is still relevant in modern psychology;

⁴⁷ Richard A. Easterlin, 'Income and Happiness: Towards a Unified Theory', *Economic Journal* 111, no. 473 (2001): 465–484.

⁴⁸ Robert Edwards Lane, *The Loss of Happiness in Market Democracies* (New Haven: Yale University Press, 2001), 65.

⁴⁹ Kahneman D. and Deaton A., 'High Income Improves Evaluation of Life but Not Emotional Well-being', *Proc. Natl. Acad. Sci. U. S. A. Proceedings of the National Academy of Sciences of the United States of America* 107, no. 38 (2010): 16489–16493.

⁵⁰ Brickman P, Coates D, and Janoff-Bulman R, 'Lottery Winners and Accident Victims: Is Happiness Relative?', *Journal of Personality and Social Psychology* 36, no. 8 (1978): 917–27.

⁵¹ Philip Brickman and Donald T. Campbell, 'Hedonic Relativism and Planning the Good Society', in *Adaptation-level Theory: a Symposium*, ed. Mortimer H. Appley (New York: Academic Press, 1971), 297–304.

however, it needs to be mentioned that this does not mean that certain factors cannot affect a person's well-being. While people do adapt relatively well to various circumstances, well-being can still be influenced by certain factors, giving hope to policymakers that wish to decrease misery and increase well-being.⁵²

Adaptation theory suggests that it does not matter if a person loses their leg or suddenly wins millions of dollars; it will not affect that person's overall well-being. On the one hand, this suggests that negative events do not seriously alter well-being due to humans' amazing ability to adapt to their respective circumstances. On the other hand, it suggests that more money – the goal for many westerners – will not satisfy like they think it will.

Researchers refer to this phenomenon as the “hedonic treadmill.” However prosperous a country, people continue to believe that more money is the key to well-being.⁵³ In an endless routine, people make more money, but think that just a little more will satisfy them. In 1987, Americans believed that the amount of money they needed to “fulfill all of [their] dreams” was approximately \$50,000, and in 1996 that number (in constant dollars) climbed to \$90,000.⁵⁴ A misconception about wanting more and more money is that there is no point at which well-being is achieved. There is no imaginary finish line. Well-being is a combination of factors and experiences, not a destination that can be reached.

⁵² Ed Diener, Richard E. Lucas, and Christine Napa, ‘Beyond the Hedonic Treadmill: Revising the Adaptation Theory of Well-Being’, *American Psychologist* 61, no. 4 (2006): 305–314.

⁵³ Bok, *The Politics of Happiness*, 177.

⁵⁴ *Ibid.*, 13.

Individuals who attach great importance to wealth tend to suffer from lower well-being.⁵⁵ This is because many of these individuals will fail in their pursuit, but also because it is largely an impossible and endless goal. There is always someone wealthier, leading people to covet what others have no matter how rich they are in comparison to the rest of the world. Westerners are often unsatisfied because they fail to realize that there is a level of income that is “enough.” At some point, more money fails to bring more well-being.⁵⁶ If well-being is the goal, time would be better spent on developing relationships and doing enjoyable activities.

The same is true not just of income, but of material possessions. “We fail to anticipate the rise in material aspirations that will come with growth in income. We are seemingly never materially satisfied with constantly changing material expectations, except when we reach the age of wisdom.”⁵⁷

“The West created economic models that say that if we have enough material goods we will be happy.”⁵⁸ However, study after study has revealed that the pursuit of material goods leads to decreased well-being, decreased day-to-day happiness, increased depression, increased paranoia and narcissism. “The truth is that we often compromise the pursuit of happiness and the good life in the mere accumulation of material things.”⁵⁹

Juliet Schor studied increased consumerism in a 1999 book.⁶⁰ She found that people were willing to spend more money on brand-name items even if there was no difference in quality. In wealthy nations, people aim to find satisfaction. Ultimately,

⁵⁵ Ibid., 15.

⁵⁶ Anielski, *The Economics Of Happiness*, 73.

⁵⁷ Ibid., 226.

⁵⁸ Ibid., 138.

⁵⁹ Ibid., 176.

⁶⁰ Juliet B. Schor, *The Overspent American: Why We Want What We Don't Need* (New York: HarperPerennial, 1999).

however, this consumerism fails to deliver any increase in well-being. “Satisfaction depends on change and disappears with continued consumption.”⁶¹ Increased consumption does not lead to increased well-being because, as mentioned earlier, people’s satisfaction with life depends on the position of others. People consume endlessly, but do not feel satisfied. Social hierarchy encourages people to save less and buy more. Westerners end up surrounded by an abundance of material goods, but not a better life. Material goods do not lead to higher well-being.⁶² Well-being is not reliant on high levels of consumption. “The truth is that we often compromise the pursuit of happiness and the good life in the mere accumulation of material things and most importantly money.”⁶³

Rampant consumerism has also led to a more materialistic view of education. Advertisements have appeared on the pages of examination booklets.⁶⁴ In addition, the number of university students interested in developing “values and a meaningful philosophy of life” has declined; today, 75 percent of freshman students consider “making money” very important, up significantly from a few decades ago.⁶⁵

Research suggests that experiences are far superior in promoting well-being than material possessions. It is not the souvenir that brings satisfaction, but the vacation; it is not the skis, but the ski trip; it is not the couch, but the conversation. Research done by Leaf Van Boven confirms that it is not material goods that bring about satisfaction, but

⁶¹ Frey and Stutzer, ‘What Can Economists Learn from Happiness Research?’, 414.

⁶² Schor, *The Overspent American: Why We Want What We Don’t Need*.

⁶³ Anielski, *The Economics Of Happiness*, 176.

⁶⁴ Bok, *The Politics of Happiness*, 115.

⁶⁵ *Ibid.*, 166.

experiences.⁶⁶ “‘The good life’ ...[is] better lived by doing things than by having things.’”⁶⁷

Choice itself can be detrimental to well-being. While some choice is good, it has been found that too much choice in day-to-day activities leads to decreased well-being.⁶⁸ Westerners are presented with very little choice in what matters, such as political leaders, but an overabundance of choice in what does not, such as types of yogurt.

Despite significant monetary gains in the past few decades, people’s satisfaction with life is no higher because people are notoriously poor judges of what will improve their lives. As long as people continue to believe that buying a bigger house, owning a newer car, winning the lottery or getting a job promotion will make them satisfied, they will continue to fall short. Psychologists confirm that people are unaware of what will make them happy, focusing too much on short-term effects and failing to realize their ability to adapt.⁶⁹ Emerging research on well-being is increasingly answering the question of what contributes to life satisfaction, so there is hope that the findings can help people make decisions that better contribute to their well-being. There is hope that this research can also make clear to policymakers the factors that are important to measure. The next chapter will discuss what GDP does measure, and whether it is compatible with these factors that contribute to well-being.

⁶⁶ L. Van Boven, ‘Experientialism, Materialism, and the Pursuit of Happiness’, *Review of General Psychology* 9, no. 2 (2005): 132–142.

⁶⁷ Leaf Van Boven and Thomas Gilovich, ‘To Do or to Have? That Is the Question’, *Journal of Personality and Social Psychology* 85, no. 6 (2003): 1193.

⁶⁸ Barry Schwartz, *The Paradox of Choice : Why More Is Less* (New York: Ecco, 2004).

⁶⁹ Bok, *The Politics of Happiness*, 5–6.

Conclusion

Well-being – defined as overall satisfaction with life – is a complex concept that is finally beginning to be better understood. Philosophers have long understood the importance of well-being, often seeing it as life's most important aim. Thus, there has been a detailed history of attempting to understand what it is that contributes to one's well-being. Many philosophers have long questioned the importance of adding money and possessions to their life, instead valuing relationships and a virtuous life. Empirical research has tended to confirm philosophical insights into well-being. Overall life satisfaction is mainly affected by marriage, social relationships, employment, perceived health, religion and quality of government. It is also increased by doing charitable work, and is largely dependent on the situation of others. Therefore, large disparities of income decrease societal well-being. In addition, increased income and material possessions have little – and sometimes a negative – impact on a person's well-being.

As the factors that contribute and detract from well-being become better understood, it is worth questioning whether wealthy countries' economic policies are appropriately designed to encourage increases in well-being.

2 Problems With GDP and Growth

Using the concept of well-being developed in the first chapter, the second chapter of this paper explores well-being's relationship with GDP. Essentially, there are two main issues outlined in this chapter. First, GDP is a poor measure of well-being; it does not accurately reflect how satisfied people are with their lives. Second, beyond simply being an inadequate measurement, focusing on growing GDP leads policymakers and individual citizens to strive toward the wrong goals.

History of GDP and Growth Obsession

Though it now dominates economic conversation, it was only after WWII that growth became the principal aim of economic policy in the United States. Before then, economic policy was predominantly concerned with taming the business cycle and avoiding unemployment.⁷⁰ Growth was increasingly emphasized by the Council of Economic Advisers in the late 1940s, and John F. Kennedy later made growth an

⁷⁰ Anielski, *The Economics Of Happiness*, 117.

important part of his campaign.⁷¹ Today, the mantra of infinite growth with finite resources goes largely unquestioned, despite it being “an obvious impossibility” in the long-term.⁷²

GDP was originally developed at the height of the Great Depression by Simon Kuznets and Richard Stone, who were later given the Nobel Prize in Economics. In 1934, Kuznets was tasked with producing a report for the United States government, estimating the country’s national income. The policy tool he developed became the prototype for what we now call GDP.⁷³ During the war, GDP was first used in order to help increase production for the war effort. Following the war, GDP was prioritized and used in order to measure growth, which presumably benefited everyone. Before the war, economists had little significance in public policy; however, following the war, economists became the “ultimate authorities” on public policy.”⁷⁴

Kuznet – GDP’s architect – made abundantly clear that GDP was to be used as a measure of economic activity, not a measure of well-being. While advocating its use in 1934, Kuznets warned that “the welfare of a nation can scarcely be inferred from a measurement of national income as defined above.”⁷⁵ Later, in 1962, Kuznets again criticized the scope with which GDP was being used: “Distinctions must be kept in mind between quantity and quality of growth, between its costs and return, and between the short and long run. Goals for more growth should specify more growth of what and for

⁷¹ Bok, *The Politics of Happiness*, 64.

⁷² Ibid.

⁷³ Schumacher, *Small Is Beautiful: Economics as If People Mattered*, 46.

⁷⁴ Clifford Cobb, Ted Halstead, and Jonathan Rowe, ‘If the GDP Is Up, Why Is America Down?’, *The Atlantic* 276, no. 4 (1995): 63.

⁷⁵ Ibid., 64.

what.”⁷⁶ Nevertheless, GDP continues to be used today as the primary measurement of societal well-being.

Relationship Between GDP and Well-Being

The economic goal for most governments is growth, as measured by GDP. There is an underlying assumption that increasing the GDP will translate into an increase in societal well-being. Addressing the recent World Economic Forum, Prime Minister Stephen Harper reiterated the priority of pro-growth policies, saying, “Western nations, in particular, face a choice of whether to create the conditions for growth and prosperity, or to risk long-term economic decline.”⁷⁷ He added, “The wealth we enjoy today has been based on – and only on – the good, growth-oriented policies, the right, often tough choices and the hard work done in the past.”⁷⁸ Economic growth, in other words, is a main priority of the Canadian government, as it is for most developed nations.

Canada’s 2011 Budget, *A Low-Tax Plan for Jobs and Growth*, depicts the assumed connection between well-being and growth. It notes that the Budget is designed to, “improve the well-being of Canadians over the long term. To this end, Budget 2011 supports job creation and continues to lay the foundation for sustainable economic growth.”⁷⁹ Gregory Makiw, former head of George W. Bush’s Council of Advisors said

⁷⁶ Simon Kuznets, *National Income, 1929-1932*, Senate Document, 73rd US Congress, 1934, 7.

⁷⁷ Mark Kennedy and Jordan Press, “‘Major Transformation’ as Harper Aims for Growth over Entitlements”, January 26, 2012, <http://www.nationalpost.com/Major+transformation+Harper+aims+growth+over+entitlements/6059318/story.html>.

⁷⁸ Ibid.

⁷⁹ Department of Finance, ‘Budget 2011’, March 22, 2011, <http://www.budget.gc.ca/2011/plan/toc-tdm-eng.html>.

that, “GDP per person seems a natural measure of the economic well-being of the average individual.”⁸⁰

Having established what leads to and what constitutes well-being – individuals’ satisfaction with their life – it is worth questioning the assumption that growth and, therefore, a rising GDP, translates into improved well-being.

It is certainly true that countries with higher GDP tend to have higher well-being. This is not overly surprising. Developing countries – those with very low GDP – have many impoverished citizens who do not yet have their basic needs met. For anyone living in poverty, well-being is understandably low. What is interesting, however, is that once nations get to a point where basic needs are essentially met, increases in GDP no longer have much of an effect on well-being. In other words, “well-being appears to rise with the national income, but then reaches a threshold at a certain level. Above this level an increase in well-being is so small as to be almost undetectable.”⁸¹ The threshold level is around \$10,000. Once a country reaches \$10,000 per capita, further growth does not result in increased well-being.⁸² This trend can be seen in Figure 1, where each dot represents a country of the world in 2005. Well-being tends to plateau, despite higher GDP.

Income is a means, not an end in itself. As the capabilities approach says, what is important is equalizing capabilities, not income. Sen criticizes the equal distribution of income because it focuses on means and not what individuals gain with the means.⁸³ What an individual can accomplish with a certain level of income relies heavily on that

⁸⁰ Bok, *The Politics of Happiness*, 66.

⁸¹ Anielski, *The Economics Of Happiness*, 218.

⁸² Bok, *The Politics of Happiness*, 13–14.

⁸³ Amartya Sen, ‘Equality of What?’, in *Tanner Lectures on Human Values*, vol. I (Cambridge: Cambridge University Press, 1980).

person's capabilities. In other words, a just system would not rely on equalizing income, but ensuring that everyone has adequate nourishment, health, freedom of mobility and so on.

Though closer than developing countries, Western countries are still far away from equalizing opportunities. There is still a wide disparity of skills and life expectancy, for example. Nevertheless, it is easy to see why this is a worthwhile goal. The capabilities approach is based on ensuring that people have the ability to achieve what they are capable of. For some individuals, it takes a higher amount of commodities to equalize capabilities. For instance, a disabled person might require the use of a wheelchair or lifts in order to have the same level of mobility as everyone else. Also, a pregnant woman will require a different diet to achieve the same level of nourishment. Simply looking at income does not provide adequate information about the well-being of these individuals. It must be understood how well people are able to function with their level of income.

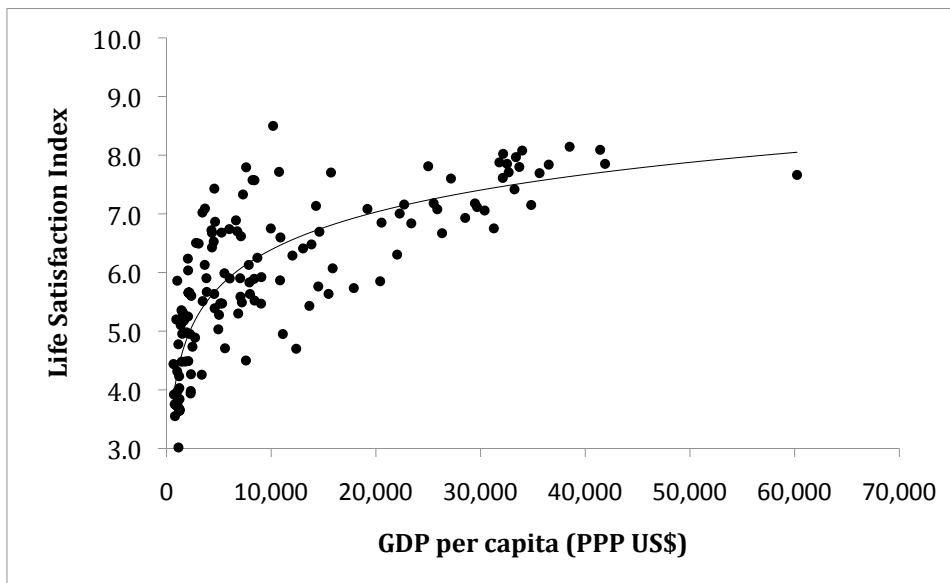


Figure 2: GDP and Life Satisfaction for 141 Countries

Credit: New Economics Foundation. 2009. *The (un)Happy Planet Index, 2.0*.

The Life Satisfaction Index is calculated by using data from the Gallup World Poll and the World Values Survey. Life satisfaction is measured in both surveys using the question, *All things considered, how satisfied are you with your life as a whole these days?*⁸⁴

According to the Life Satisfaction Index, the country with the highest level of life satisfaction is Costa Rica, despite having a very modest GDP per capita of \$10,180. The next happiest countries are Denmark, Norway and Ireland. Other happiness studies have found Denmark to be the happiest country in the world.⁸⁵ Nonetheless, GDP growth in these rich nations has only a marginal effect on well-being.

Growth is much more important for developing nations. For these countries, there is a strong correlation between GDP growth and increases in well-being. When Organisation for Economic Co-operation and Development (OECD) countries are removed, as shown in Figure 3, there is a stronger relationship between GDP and life satisfaction.

⁸⁴ New Economics Foundation, 'Components of the HPI | Calculating the HPI | Learn | Happy Planet Index', n.d., <http://www.happyplanetindex.org/learn/calculating/global.html#lifesat>.

⁸⁵ Robert Biswas-Diener, Joar Vittersø, and Ed Diener, 'The Danish Effect: Beginning to Explain High Well-Being in Denmark', *Soc Indic Res Social Indicators Research* 97, no. 2 (2010): 229–246.

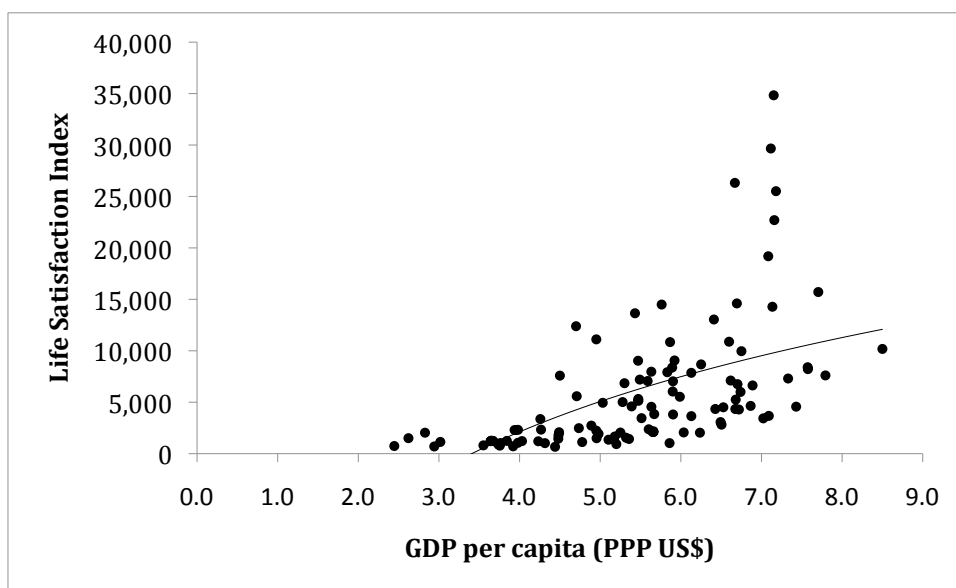


Figure 3: GDP and Life Satisfaction for Non-OECD Countries

Credit: New Economics Foundation. 2009. *The (un)Happy Planet Index, 2.0*.

Despite this strong correlation, it should still be mentioned that GDP is not always an accurate reflection of a country's well-being. GDP can be a misleading indicator of development and must be analyzed alongside other factors. For instance, Equatorial Guinea has the 49th highest GDP per capita in the world, which tops that of Chile, Poland and Russia.⁸⁶ Nevertheless, Equatorial Guinea is one of the least developed countries of the world, ranked 136th on the Human Development Index (HDI). It is a highly impoverished and highly unequal country, with much of its oil revenue going to President Teodoro Obiang Nguema Mbasogo.⁸⁷ GDP is not an accurate reflection of Equatorial Guineans' well-being, and policies aimed solely at increasing oil revenue and, therefore, GDP, might have no benefit for the people.

⁸⁶ International Monetary Fund, 'World Economic Outlook Database September 2011', n.d., <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>.

⁸⁷ Glsa Wszkalnys et al., 'The Curse of Oil in the Gulf of Guinea: A View from São Tomé and Príncipe', *African Affairs* 108, no. 433 (2009): 679–689.

The same is true in Nigeria, where the number of people living in absolute poverty has risen from 54.7 percent of the population in 2004 to 60.9 percent in 2010.⁸⁸ In the same years, Nigeria's GDP per capita (current US\$) rose 71.7% - from \$6,615.5 to \$9,228. Nigeria is currently 156th in the world on the HDI, despite strong GDP growth.

Nevertheless, this paper recognizes the strong connection between growth and well-being for developing nations. However, the same is not true of developed countries. In developed countries, poverty – a significant detractor of well-being everywhere in the world – is not going to be reduced with more growth; what is missing is political will. Developed nations already possess the resources to eliminate poverty, but the poor are simply not a priority.⁸⁹ Reducing poverty increases a country's well-being, but in rich nations, this is no longer done by generating GDP growth. The focus of the paper, therefore, is on the effect of increasing GDP within developed, not developing, countries.

Figures 4-6, depicting life satisfaction and GDP per capita for Americans, Canadians and Danes, show that economic growth does not appear to result in increased well-being. Therefore, the assumption that GDP growth translates to increased well-being appears to be faulty. In terms of well-being, Andrew J. Oswald concludes that, “in a country that is already rich, policies aimed at raising economic growth may be of comparatively little value.”⁹⁰

⁸⁸ ‘Nigerians Living in Poverty Rise’, *BBC*, February 13, 2012, sec. Africa, <http://www.bbc.co.uk/news/world-africa-17015873>.

⁸⁹ Bok, *The Politics of Happiness*, 68.

⁹⁰ Andrew J Oswald, ‘Happiness and Economic Performance’, *The Economic Journal* 107, no. 445 (1997): 1815–1831.

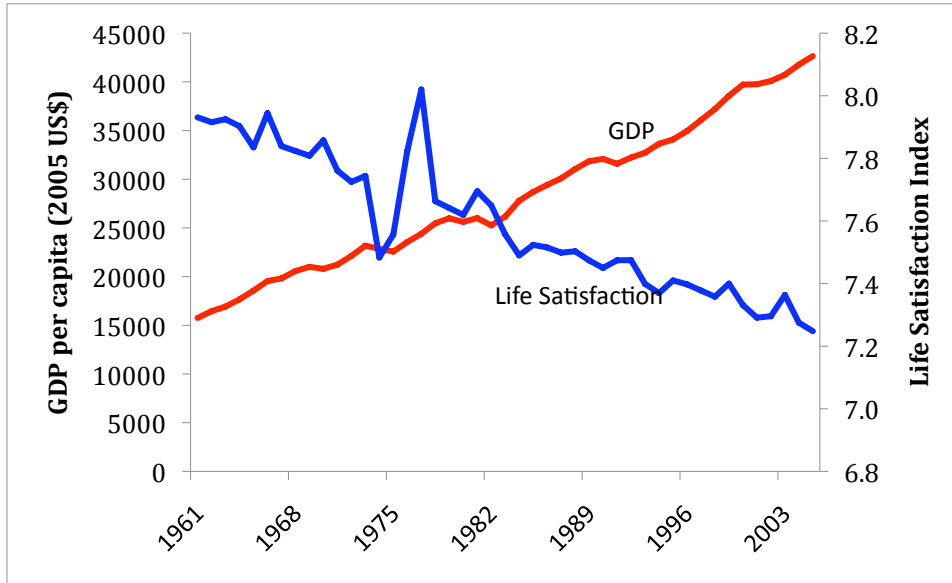


Figure 4: GDP and Life Satisfaction in the United States, 1961-2005

Credit: U.S. Department of Commerce, Bureau of Economic Analysis.

New Economics Foundation. 2009. *The (un)Happy Planet Index, 2.0*.

Life satisfaction's relationship with GDP in the United States is quite telling. Even after adjusting GDP for inflation and population, it can be seen that life satisfaction not only does not move with GDP, but it has an inverse relationship. The more GDP has risen, the less satisfied Americans have been with their lives. Citizens of the United States, and most Western nations, are no happier than they were in the 1950s.⁹¹ This trend can be seen in Canada and Denmark as well. While the countries' economies have grown quite substantially in the past few decades, well-being has not.

⁹¹ Anielski, *The Economics Of Happiness*, 216.

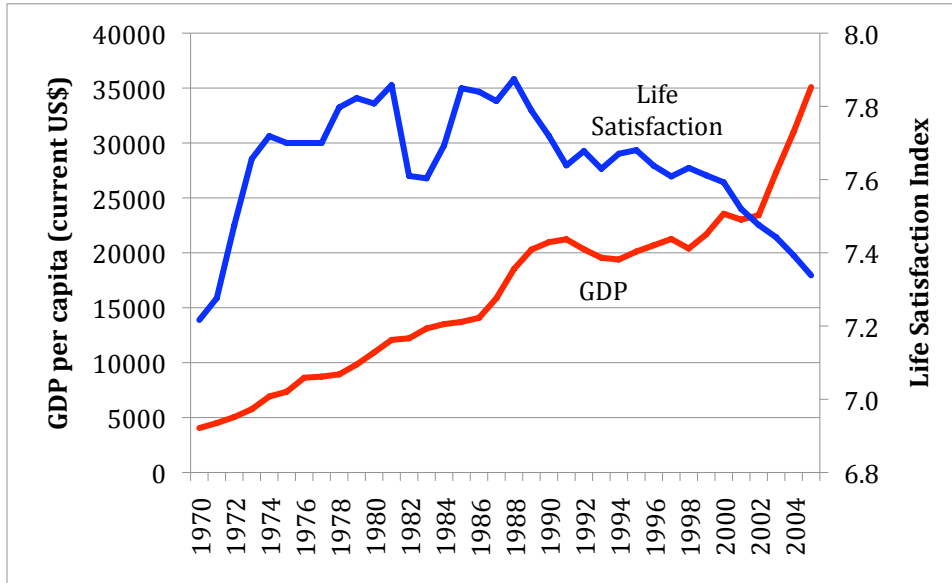


Figure 5: GDP and Life Satisfaction in Canada, 1970-2005

Credit: World Bank. 2011. *World Development Indicators 2011*.

New Economics Foundation. 2009. *The (un)Happy Planet Index, 2.0*.

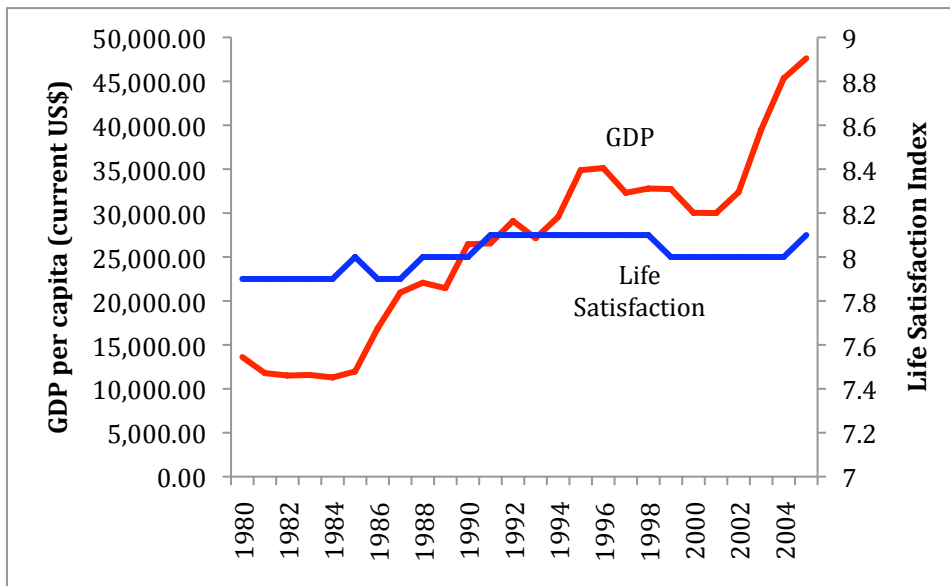


Figure 6: GDP and Life Satisfaction in Denmark, 1980-2005

Credit: World Bank. 2011. *World Development Indicators 2011*.

New Economics Foundation. 2009. *The (un)Happy Planet Index, 2.0*.

The Life Satisfaction Index is by no means the only indicator of well-being. The Genuine Progress Indicator (GPI) is becoming increasingly popular in economics literature. The GPI is an aggregate score, calculated by using a number of different economic, social and environmental indicators. Instead of using self-assessments of well-

being, GPI measures indicators that are thought – or have been proven – to increase well-being. Alberta’s GPI is calculated using a total of 51 indicators, grouped into economic, social and environmental. Examples of the indicators include household debt, savings, poverty, free time, water quality and ecological footprint.⁹²

Similar to the Life Satisfaction Index, GPI, when graphed, shows that increases in GDP have not resulted in improved well-being. Figure 6 depicts GPI for Alberta, a province whose economy has grown tremendously as a result of oil revenue. In fact, GDP has increased 483% since 1961.⁹³

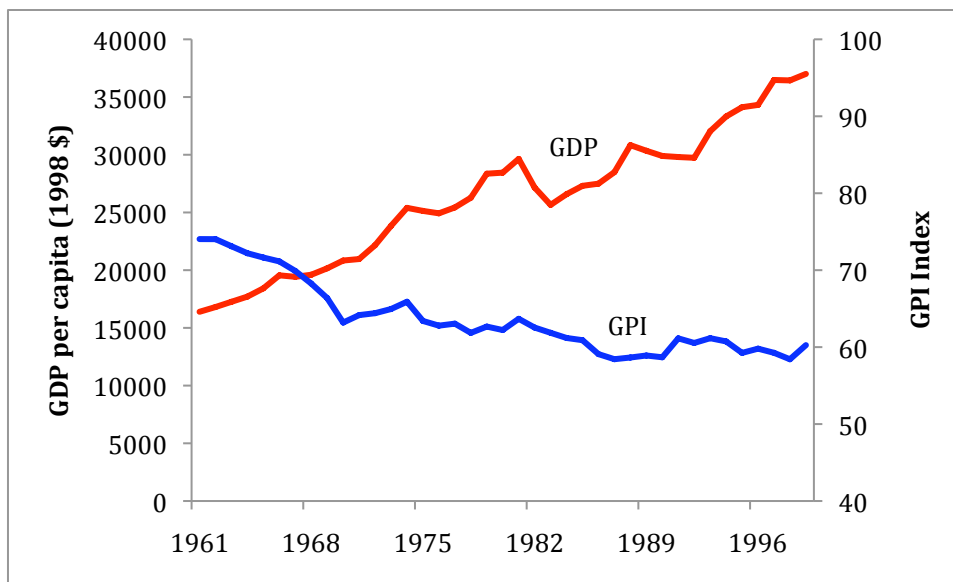


Figure 7: GDP and GPI in Alberta, 1961-1999

Credit: Mark Anielski. 2001. *The Alberta GPI Blueprint*.

Alberta is home to the third largest deposit of oil in the world, and heightened oil prices have made the oil sands increasingly profitable. The city of Leduc, just south of Edmonton, has the third highest GDP per capita in the world, behind Luxembourg and

⁹² Ibid., 44.

⁹³ Amy Taylor, *The Alberta GPI Summary Report* (Pembina Institute for Appropriate Development, September 2005), <http://www.pembina.org/pub/193>.

Bermuda.⁹⁴ However, despite the economic growth, people are beginning to question how it has benefited them. Alberta has relatively high wages and low unemployment; however, well-being is still low in comparison to other provinces. The Maritimes, despite low GDP, have the highest levels of happiness in Canada.⁹⁵ Even when only looking at Alberta's economic well-being, ignoring social and environmental aspects, there has been no improvement in the last twenty years.⁹⁶ Economic well-being is measured in terms of income, taxes, debt and savings. It is clear that GDP is not accurately reflecting the well-being of Albertans, Canadians or Western citizens on the whole.

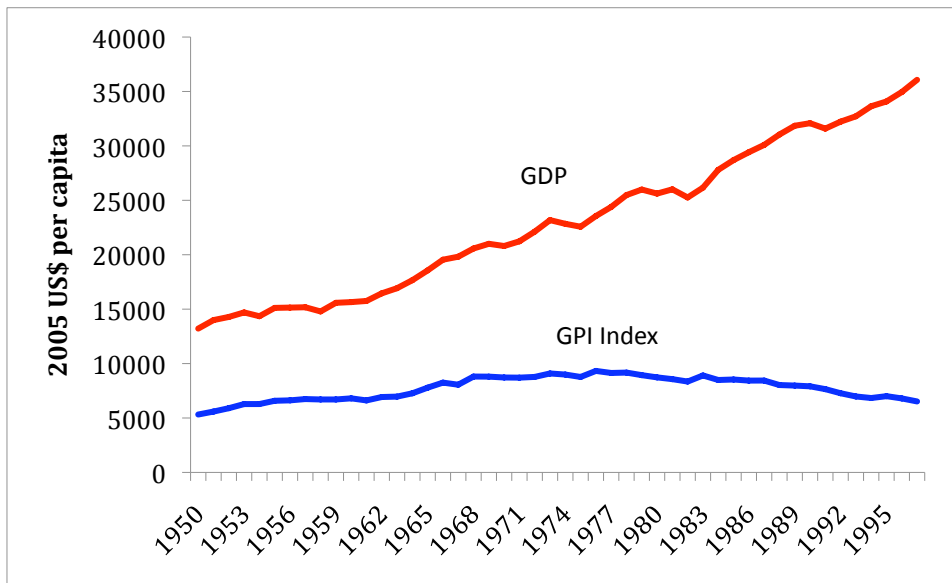


Figure 8: GDP and GPI in the United States, 1950-1997

Credit: U.S. Department of Commerce, Bureau of Economic Analysis

Rowe, Jonathan and Mark Anielski. 1999. *The Genuine Progress Indicator: 1998 Update*.

The United States' GPI tells a similar story to Alberta's. GDP has risen over the years, but GPI peaked in 1973, as shown in Figure 7. A rising GDP does not improve everyone's well-being.

⁹⁴ Anielski, *The Economics Of Happiness*, 111.

⁹⁵ Ibid., 226.

⁹⁶ Ibid., 47-48.

What GDP Does Not Measure and What It Does Measure

By discussing what GDP does not measure and then the different factors that it does measure, this section will help to analyze the reasons why GDP does not correlate with well-being.

As the previous graphs have shown, both Alberta and the United States have seen no real increase in well-being – measured by GPI – over the past few decades. The reasons, however, might be completely unique to each place. Albertans’ stagnation of well-being could be partially explained by longer working hours or environmental degradation. In fact, Albertans enjoy the least amount of leisure time of any province in Canada.⁹⁷ The reasons behind the United States’ GPI level are of course quite varied as well. However, part of the explanation is that growth in past decades has economically benefited only a small number of people in the United States. More precisely, the most recent OECD report on income inequality reveals that the rich have benefited more than the middle class who have benefited more than the poor.⁹⁸ Especially following Reagan’s reforms in the 1980s, American workers experienced no growth in real wages.⁹⁹ The United States, Britain and Canada have increasingly become “plutonomies” – economies where financial growth is largely restricted to the rich.¹⁰⁰ In 2010, American incomes grew, on average, 11.6 percent. However, an astonishing 93 percent of that total growth

⁹⁷ CBC News, ‘Time to Spend with Family Hard to Come by in Alberta’, News, *CBC*, February 20, 2012, <http://www.cbc.ca/news/canada/edmonton/story/2012/02/20/calgary-alberta-family-day.html>.

⁹⁸ Organisation for Economic Co-operation and Development, *Divided We Stand: Why Inequality Keeps Rising*. (Paris: OECD, 2011).

⁹⁹ McQuaig and Brooks, *The Trouble With Billionaires: Why Too Much Money at the Top Is Bad for Everyone*, 61.

¹⁰⁰ Ibid.

went to the richest one percent of Americans; for 99 percent of people, income only increased 0.2 percent.¹⁰¹

Thus, while GDP numbers might seem to suggest that Americans have enjoyed economic growth over the years, the reality is that a large number of Americans have seen no improvement in their wage or quality of life. GDP numbers can be quite misleading in this respect. A country may have increased its GDP per capita from \$25,000 to \$30,000, but if the median income has not increased, people are not better off. Simply measuring averages does not take distribution into account.¹⁰²

Moving beyond the measurement of averages is important because inequality has a large negative effect on well-being. As mentioned in the first chapter, in rich countries, a smaller gap between the rich and poor results in higher levels of well-being. Inequality is cause to a whole host of problems, including drug use, life expectancy, obesity, educational performance, teenage pregnancy and violence, to name only a few.¹⁰³ Efforts to reduce inequality have resulted in increased prosperity.¹⁰⁴ Research is clear on the negative effects of inequality. What is now needed is a greater priority placed on measurements that evaluate this important determinant of well-being and an economic system that encourages a smaller gap between the rich and the poor.

Another aspect that is not measured by GDP is negative externalities of our economic system, such as environmental degradation. A company that pollutes a river is “good” for the economy, but obviously this is not necessarily good for overall well-being.

¹⁰¹ Chrystia Freeland, ‘A U.S. Recovery, but Only for the 1 Percent’, *The New York Times*, March 8, 2012, sec. U.S., <http://www.nytimes.com/2012/03/09/us/09iht-letter09.html>.

¹⁰² Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Mismeasuring Our Lives: Why GDP Doesn’t Add Up* (New York: New Press, 2010), xiv.

¹⁰³ Wilkinson and Pickett, *The Spirit Level*.

¹⁰⁴ McQuaig and Brooks, *The Trouble With Billionaires: Why Too Much Money at the Top Is Bad for Everyone*, 58.

GDP only takes into account what is created, not what is destroyed.¹⁰⁵ It counts what is produced, but not what is required for production. GDP is a poor measure because it counts industrial production, but not the consequential rise in asthma rates, for instance. And it is not just a minority of individuals that are negatively impacted by environmental damage. Protecting the planet is of benefit to everyone; therefore, an economic measure like GDP falls short, since it does not account for environmental damage.

Furthermore, it is easy to see how GDP is simply a poor economic measure. Economically, it is better in the long-run to plant forests after clear-cutting them, to have good air quality, to preserve wildlife and to keep water systems free of pollutants. Sustainability, in other words, will help an industry stay profitable for a longer period. Simply using GDP, however, does not account for the economic good in the long-run. There is also Dutch Disease to consider – the phenomenon whereby a country's resource boom leads to an appreciation of the exchange rate and, thus, a decline in the manufacturing sector.¹⁰⁶ Canada is at risk of Dutch Disease. Deriving profit from oil in the ground is easy to do; however, when it is done too quickly, it can actually have adverse effects on the economy as a whole, especially if the manufacturing sector does not rebound when the oil is all used up.

In addition to not measuring that which lowers well-being, GDP also does not measure that which increases well-being. The factors that people most value – family, relationships and community – have no value according to GDP; only what can be obtained in the market is given value. In addition, leisure time, which is another significant contributor to well-being, is not measured.

¹⁰⁵ Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Mismeasuring Our Lives*, xiii.

¹⁰⁶ M. Beine, C.S. Bos, and Serge Coulombe, *Does the Canadian Economy Suffer from Dutch Disease?* (Amsterdam: Tinbergen Institute, 2009).

The important work that parents – especially mothers – do in raising children also has zero value in GDP, despite being hugely important for well-being and for the economy. In Canada alone, the amount of unpaid work, which is done primarily by women, was estimated in 1992 to be worth \$318.8 billion.¹⁰⁷ If parents spent less time with their kids, had less maternity leave and relied more heavily on private or public day-cares, GDP would rise. However, it would be difficult to argue that this change would make society – and families – better off.

In recent years, much of GDP's rise can be attributed to related shifts to market-based services. Many services, such as child-care, are now received on the market, rather than from family or friends. "This shift translates into a rise in income as measured in the national accounts and gives a false impression of a change in living standards, while it merely reflects a shift from non-market to market provision of services."¹⁰⁸

Much of what GDP measures is quite a perverse indication of societal well-being. When a couple divorces, each party must hire a lawyer and then live in separate dwellings, both causing GDP to rise. When a hurricane devastates a city, rebuilding costs cause GDP to rise. When an oil spill wreaks havoc on the ocean, the enormity of clean-up costs cause GDP to rise. When a country diverts more resources to funding a war, GDP again rises. Mark Anielski describes the ideal GDP hero – one who has a very positive impact on his or her country's GDP: "The GDP's ideal economic hero is a chain-smoking, terminal cancer patient going through an expensive divorce whose car is totaled in a 20-car pileup, as a result of being distracted by his cell phone while munching on a

¹⁰⁷ Catherine Hoskyns and Shirin M. Rai, 'Recasting the Global Political Economy: Counting Women's Unpaid Work', *New Political Economy* 12, no. 3 (2007): 302.

¹⁰⁸ Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Mismeasuring Our Lives*, 49.

fast-food hamburger.”¹⁰⁹ Everything is added to GDP and nothing is ever subtracted, good or bad.

Mere weeks before his assassination, Robert Kennedy expressed his dissatisfaction with GDP, summarizing much of what is wrong with the measure:

[It] counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities... Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor passion or our devotion to our country, it measures everything in short, except that which makes life worthwhile.¹¹⁰

GDP does not measure what is important in people’s lives. The consequence of this is summed up nicely by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi: “What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things.”¹¹¹

What GDP Leads To

The dogma of endless and continuous growth has resulted in the type of society that prioritizes what is unimportant. It is difficult for societal well-being to increase when people are determined to pursue goals that run contrary to higher life satisfaction. As Stiglitz, Sen and Fitoussi remark, GDP is not just a poor measurement, but it also results

¹⁰⁹ Anielski, *The Economics Of Happiness*, 30.

¹¹⁰ Ibid.

¹¹¹ Robert F. Kennedy, ‘Remarks of Robert F. Kennedy at the University of Kansas, March 18, 1968 - John F. Kennedy Presidential Library & Museum’, March 18, 1968, <http://www.jfklibrary.org/Research/Ready-Reference/RFK-Speeches/Remarks-of-Robert-F-Kennedy-at-the-University-of-Kansas-March-18-1968.aspx>.

in the pursuit of the wrong goals. This section describes the kind of society that is brought about by prioritizing GDP growth.

More than 98 percent of the money supply in both Canada and the United States is in the form of debt.¹¹² This staggering statistic is the all-too-common reality in growth-based economies. In fact, it has been found that there is a direct relationship between debt and GDP.¹¹³ Simply put, the country could not grow as quickly and as steadily without a constant supply of borrowed money. Considering that debt makes up 98 percent of the money supply in the United States and Canada, Mark Anielski argues that, “over the last 50 years of our economic progress, our entire economic prosperity has been financed by debt.”¹¹⁴ In the United States, government, business, household and foreign debt totals \$42 trillion, which is unsustainable and nearly impossible to repay.¹¹⁵

Some debt, of course, serves a useful purpose. Loans to finance small business start-ups and student loans are both beneficial to society, both economically and in terms of well-being. Excessive debt, however, hinders an individual’s well-being, as described in Chapter 1. And today, Canadians, Americans and many Western citizens are burdened by record-level mortgage and credit card debt. In 2006, Americans’ total household debt (consumer credit, home mortgages and other debt) as a percentage of personal income was 139.7%, up from 72.1% in 1980.¹¹⁶ Beginning in the early 1980s, consumer credit expanded rapidly, financing consumption more than ever.

¹¹² Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Mismeasuring Our Lives*, svii.

¹¹³ Aniel36

¹¹⁴ Anielski, *The Economics Of Happiness*, 182.

¹¹⁵ *Ibid.*, 184.

¹¹⁶ Aldo Barba and Massimo Pivetti, ‘Rising Household Debt: Its Causes and Macroeconomic Implications—a Long-period Analysis’, *Cambridge Journal of Economics* 33, no. 1 (January 1, 2009): 115.

Why would people purposefully burden themselves with unnecessary debt? The answer might lie in research that suggests that people's happiness is dependent on those around them. People are continually trying to become more successful than their neighbours, leading to a materialistic arms race. People buy status symbols, such as bigger houses, fancier cars and brand-name clothes, in an endless effort to appear elite – a message that is continually reinforced by businesses. People always feel as though they need more things and more income to become happy. The result, however, is that “people's aspirations are forever beyond their reach, leaving them perpetually unsatisfied.”¹¹⁷ As mentioned in the first chapter, the amount of money that people believe they need in order to be satisfied has steadily increased.

Research on rising debt does suggest that maintaining or increasing social status plays a significant role in people financing their consumption with borrowed money. Aldo Barba and Massimo Pivetti found that this factor, in addition to inequality, can explain much of the rise in household debt: “In the face of growing income inequalities such as those experienced by the USA over the past 25 years, the drive to continually improve one's standard of living and ‘keep up with the Joneses’ contribute to bring about...a growing indebtedness to finance consumption in excess of current income.”¹¹⁸ As an added consequence, household savings have depleted as debt has risen.

The beginnings of consumerism began with Edward L. Bernays, nephew of Sigmund Freud. Bernays used his uncle's theories on the subconscious to manipulate the population for the benefit of corporations and governments. Some of his work includes being hired by American Tobacco in the 1920s, where he broke down the smoking taboo

¹¹⁷ Anielski, *The Economics Of Happiness*, 182.

¹¹⁸ Barba and Pivetti, ‘Rising Household Debt’, 126.

for females by successfully labeling cigarettes as “Torches of Freedom,” and with a bacon producer, Beechnut Packing Company, where Bernays convinced the public that bacon and eggs constituted the true all-American breakfast.¹¹⁹

Bernays was successfully able to manipulate the population at large by understanding their insecurity, sexuality and fears.¹²⁰ While Freud tried to use his psychology to free patients from emotional crutches, “Bernays used it to rob consumers of their free will, helping his clients predict, then manipulate, the very way their customers thought and acted – all of which he openly acknowledged in his writings.”¹²¹

Bernays believed that manipulating the masses is necessary to maintain an orderly society. He wrote, “If we understand the mechanism and motives of the group mind, it is now possible to control and regiment the masses according to our will without them knowing it.”¹²² Today, businesses continue to sell their products and services to consumers, convincing people that buying more things will fulfill them. That materialism does not, in fact, lead to well-being is not of concern for businesses; their profit is maximized by exploiting the desires and fears of human beings. Citizens are under the false impression that more materials will bring them happiness.

The result of increased materialism is higher GDP growth and a host of consequences that detract from societal well-being, including higher debt, consumerism and less free time. Peasants in the Middle Ages had more free time than Americans today – approximately 150 days of rest per year, compared with 111 in the United States.¹²³

¹¹⁹ Bok, *The Politics of Happiness*, 13.

¹²⁰ Citation needed?

¹²¹ Larry Tye, *The Father of Spin: Edward L. Bernays & the Birth of Public Relations* (New York: Crown Publishers, 1998).

¹²² Ibid., 97.

¹²³ Edward Bernays, *Propaganda* (Brooklyn, NY: Ig Publishing, 2004), 71.

Compared to Scandinavians, Americans work 274 more hours – approximately six weeks – per year, “enabling Americans to buy more of the generally useless things that are the markers of status and position in a highly stratified society.”¹²⁴

Additionally, far from increasing happiness, “our fixation on growth leads to rising levels of stress and insecurity.”¹²⁵ Stress, insecurity and longer working hours are all related, signifying the importance that society puts on economic growth. As earlier graphs indicated, the economy certainly has grown; however, it is generally at the expense of well-being. “The US Quality of Life index has been going down since the 1970s, and prescriptions for anti-depressants have skyrocketed.”¹²⁶ A variety of factors explain the drop or stagnation in well-being; increases in stress is but one.

Another explanation of stagnant well-being is continued environmental destruction, the unfortunate reality in a system of finite resources and infinite growth. Global biocapacity – the capacity of the Earth to provide resources – is 4.4 acres per capita; however, the average global citizen uses 5.4 acres, with developed countries obviously using much more.¹²⁷ Current economic production is simply unsustainable, resulting in a worsened environment and, therefore, a worsened quality of life.

As an extreme example, oil sands development in northern Alberta has resulted in increased cancer rates, including very rare types of cancer, especially among the Aboriginal population.¹²⁸ A utilitarian could make the argument that these polluting oil companies are of net benefit to well-being, since the benefits of their oil production

¹²⁴ Anielski, *The Economics Of Happiness*, 54.

¹²⁵ McQuaig and Brooks, *The Trouble With Billionaires: Why Too Much Money at the Top Is Bad for Everyone*, 163.

¹²⁶ Schor, *The Overspent American: Why We Want What We Don't Need*.

¹²⁷ Anielski, *The Economics Of Happiness*, 104.

¹²⁸ Erin N. Kelly et al., ‘Oil Sands Development Contributes Polycyclic Aromatic Compounds to the Athabasca River and Its Tributaries’, *Proceedings of the National Academy of Sciences of the United States of America* 106, no. 52 (December 2009): 22346–22351.

outweigh the harm done to a relatively small number of people. However, this is a shaky ethical argument to make since the companies in question *could* stop much of their environmental damage while still remaining profitable.¹²⁹ Thus, from a utilitarian perspective, one could contend that overall well-being would be raised if environmental damage was significantly reduced by simply mandating a small decrease in corporate profit. It might not maximize GDP, but moving beyond simply profit and growth is necessary in order to raise people's well-being.

In summary, the wrong metrics lead to a prioritization of the wrong goals. Focusing on economic growth leads to a variety of adverse consequences, such as increased debt, decreased savings, consumerism, less free time, heightened insecurity and a deteriorated environment. Understanding these consequences is a critical part of moving society beyond GDP.

Conclusion

This chapter has explored the relationship between GDP and well-being. Simply put, GDP growth in developed countries has not corresponded with increased well-being. The reasons that well-being in developed countries has stagnated or declined over the past fifty years are varied. Part of the explanation lies in growing inequality, wages stagnating for most individuals, growing debt, depleted savings, increased stress and insecurity, longer working hours, less time for family, friends and leisure, higher pollution and less green space.

¹²⁹ McQuaig and Brooks, *The Trouble With Billionaires: Why Too Much Money at the Top Is Bad for Everyone*, 166.

There have, of course, been positive contributions to well-being in the last few decades. People are living longer and healthier lives, crime continues to decrease and more rights have been extended to previously marginalized groups. These positive developments have not contributed enough to well-being to nullify the negative factors. Nevertheless, it is important to understand and measure all of these factors in well-being, both positive and negative. The sheer complexity of factors, how they mix and how they each affect well-being justifies a move to alternative measurements. GDP is clearly falling short, since it not only fails to measure these various factors, but it also tends to encourage that which detracts from well-being, such as consumerist lifestyles.

The evidence presented in this chapter suggests that GDP growth has not translated to improved well-being. Then what is the point of continuing to tout its importance? Why measure success in a way that is not related to an improvement in people's lives? "What we measure reflects what we value and what matters most."¹³⁰ If what we value is people, we need a metric that reflects what is important to people. Having the right metrics will shift the priority of the economy to what actually contributes to well-being.

¹³⁰ Cobb, Halstead, and Rowe, 'If the GDP Is Up, Why Is America Down?', 67.

3 Alternative Measurements

If increasing well-being is the goal of society and if GDP does not accurately reflect changes in well-being, alternative measurements are necessary. The chart below briefly outlines ten such alternative measurements, and then four are analyzed more in-depth – the Human Development Index (HDI), Genuine Progress Indicator (GPI), Canadian Index of Well-Being (CIW) and Gross National Happiness (GNH). The reasons for choosing to analyze these four measurements are their prominence in the literature and their relevance for Canadian policymakers.

Measurement	Indicators	Focus	Main Advantages	Main Disadvantages
Human Development Index (HDI)	3	-health -education -income	-simple -transferable across nations	-no ecological considerations -influenced heavily by GDP
Genuine Progress Indicator (GPI)	It varies, but generally there are dozens	-economic -social -environmental	-easy to tell if progress is being made: a GPI over 0 means the “good” outweighs the “bad” -accounts for many of the factors that influence well-being -easy to observe the strengths and weaknesses of each country	-difficult to measure -not a consistent set of measures for every country
Gross National Happiness (GNH)	72	-good governance and democratization -stable and equitable	-ultimate goal is to improve well-being, not simply income	-the factors are subject to political manipulation

		- socioeconomic development -environmental protection -preservation of culture		-difficult to compare one country with another
Canadian Index of Well-Being (CIW)	64	-health -living standards -community -education -environment -time use -democratic engagement -leisure and culture	-large variety of indicators -measures many of the different factors that affect well-being	-specific to Canada -relatively unknown -the only comparison is previous years
Happy Planet Index (HPI)	Happy life years and ecological footprint, measuring the efficiency that countries convert resources into well-being	-environmental impact -well-being	-simple -transferrable across countries -values people's well-being -considers the 'ends' of economic activity	-only two variables impact the final score -rights and freedom are only valued insofar as they affect life satisfaction
Fordham Index of Social Health (FISH)	16	-socio-economic indicators	-measures social health more accurately than GDP	-no consideration of the environment, culture or government -focuses only on negative aspects of society
Environmental Performance Index (EPI)	25	-environment	-easy to compare between countries -assumes that endless growth is not possible	-sole focus is the environment
Regional Quality of Development Index (QUARS)	45	-environment -economy and labour -rights and citizenship -equal opportunities -education and culture -health -participation	-encourages democratic participation -based on open source data, so it is fairly easy to calculate	-does not indicate quality of life -does not measure a region's performance in absolute terms, but only in relation to other measured regions -methodology is not weighted, so the results seem arbitrary
OECD Better Life Index	20	-well-being	-simply aims to measure well-being -accounts for the diversity of each person's well-being	-only evaluates OECD countries -measures the well-being of individuals, but not society as a whole
Genuine Savings (GS)	6	-true capital and savings rate of an economy	-encourages sustainable development -quantifies the growth-environment trade-off -much more accurate measure of the economy	-does not account for other social indicators

Human Development Index

Recognizing that much is excluded from the calculation of GDP, Amartya Sen developed the capabilities approach, which eventually led to the HDI in 1990. HDI is a composite index of well-being that goes beyond GDP. It takes into account life expectancy, education (measured by years of schooling) and standard of living (measured by GNI, Gross National Income, per capita). The result is a single number that better indicates a country's level of well-being than GDP per capita. In 2011, Norway was ranked highest, with a ranking of 0.943, followed by Australia and the Netherlands.

The main benefit of such an index is that it is an improvement on simple economic numbers. It is not as accurate a measure of well-being than other indices that take into account dozens of different factors, but it is nevertheless a move in the right direction. Its single number also makes it very easy to make global comparisons. Sen was initially worried about the simplicity of a single index, in that it is not able to fully capture the complexity of human well-being. However, the single number is also a strength. In fact, one of the creators of HDI – Mahbub ul Haq – convinced Sen that, “only a single number could shift the attention of policymakers from material output to human well-being as a real measure of progress.”¹³¹

HDI is perhaps the best-known alternative to GDP, but it is far from a perfect measurement. Its simplicity, which has resulted in much of its popularity, is a detriment to its ultimate accuracy as a measure of well-being. Sen was surely justified in questioning whether well-being can be depicted by measuring only three areas. There is much more that contributes to well-being. There is also much more that detracts from

¹³¹ Sakiko Fukuda-Parr, ‘The Human Development Paradigm: Operationalizing Sen’s Ideas on Capabilities’, *Feminist Economics* 9, no. 2–3 (2003): 305.

well-being, which is not at all included in HDI. Life expectancy, years of schooling and income do not explain how people spend their time, family breakdown, the presence of community or the level of democracy.

There is also a distinct lack of any environmental considerations in HDI. The only way environmental degradation would affect the index is if it was so bad that it brought down life expectancy. However, that is certainly not the only way in which the environment affects a person's well-being. The loss of green space, old growth forests or wildlife may not impact anyone's life expectancy, but it is not inconsequential to human well-being.

Genuine Progress Indicator

In addition to HDI, there are a number of alternative measurements to GDP that have already been developed. This paper has already referred to one such measurement – GPI. GPI is a composite index that takes into account a variety of factors that affect well-being. The index subtracts that which detracts from well-being – pollution and crime, for instance – from that which contributes to well-being – leisure time and community, for instance. The final value is a number between -1 and 1. If GPI is zero, the costs of the negatives equal the costs of the positives. Well-being, therefore, remains unchanged. Unlike GDP, not all economic activity is added to GPI. Some factors subtract from it, which is much more reflective of people's well-being.

The great benefit of a composite index with many contributing indicators is that it is simpler to investigate why well-being is up, down or unchanged. If self-reported life satisfaction increased over five years, it remains unclear why it went up. GDP may also

have risen over this period, but it would be unwise to assume that the two are causal. Analyzing the various indicators of GPI may reveal that well-being went up in spite of a large spike in crime, that median income remained unchanged or that life expectancy doubled. Only in analyzing the many different components of well-being can one begin to understand why it moves in a certain direction. For policymakers, detailed accounts of well-being, such as GPI, serve an incredibly useful purpose in helping to improve the lives of citizens.

Canadian Index of Well-Being

The CIW is another composite index, recently created by the Canadian Index of Well-Being Network, which is chaired by former Saskatchewan premier Roy Romanow. The CIW uses even more indicators than GPI – 64 in eight different categories. The eight categories include living standards, community vitality, democratic engagement, education, healthy populations, environment, time use and leisure and culture. This index is unique to Canada, so it is difficult to use it in order to compare Canada with other nations of the world. Nevertheless, CIW is an effective measure of well-being, largely because of its complexity. Well-being is not straightforward, so neither should its measurement.

Each of the 64 indicators was given a baseline value of 100 in 1994. Positive changes would move an indicator higher than 100 and negative changes would move it lower than 100. Since 1994, some indicators have seen a positive change, such as healthy populations and living standards, and others have moved in a negative direction, such as time use or leisure and culture. Compared with the base year of 1994, the final composite

index shows an 11 percent increase from in 2008, although this rate of improvement is much slower than the rate of GDP growth.

Gross National Happiness

The tiny Buddhist nation of Bhutan officially adopted GNH in 2005 in place of GDP. It is the only country of the world to officially subscribe to a policy of happiness. Measuring GNH is much like measuring GPI; a number of indicators are measured within certain categories. GNH has 72 overall indicators, which comprise the four main components of GNH: good governance and democratization; stable and equitable socioeconomic development; environmental protection; and, preservation of culture.¹³²

It is debatable whether or not the policy has produced results for the Bhutanese. Officials admit that GNH is still a work in progress.¹³³ According to the Life Satisfaction Index, Bhutan has only the 64th highest level of well-being in the world.¹³⁴ However, other evaluations of well-being place Bhutan much higher. A 2007 study of subjective well-being had Bhutan at eighth in the world, behind only Denmark, Switzerland, Austria, Iceland, Bahamas, Finland and Sweden.¹³⁵ The goal itself is admirable, and something Western governments should consider themselves. Why not measure well-being instead of an arbitrary number that has very little to do with the welfare of citizens?

Bhutan's GNH can actually be credited with helping to inspire France and the United Kingdom develop alternative measurements of their own. Although not officially

¹³² Bok, *The Politics of Happiness*, 1–2.

¹³³ Andrew C. Revkin, 'A New Measure of Well-Being From a Happy Little Kingdom', *The New York Times*, October 4, 2005, sec. Science, <http://www.nytimes.com/2005/10/04/science/04happ.html>.

¹³⁴ Saamah Abdallah et al., *The Unhappy Planet Index 2.0: Why Good Lives Don't Have to Cost the Earth*. (London: New Economics Foundation, 2009).

¹³⁵ Adrian G. White, 'A Global Projection of Subjective Well-being: A Challenge to Positive Psychology?', *Psychiatry* 56 (2007): 17–20.

called GNH, the premise is similar – that people’s well-being should be the priority, not growing GDP.

David Cameron asked the United Kingdom Office for National Statistics to come up with a measurement of well-being in 2010. Prime Minister Cameron stated that, “we should be thinking not just about what is good for putting money in people’s pockets but what is good for putting joy in people’s hearts.”¹³⁶ He also said that, “it is high time we admitted that, taken on its own, GDP is an incomplete way of measuring a country’s progress.”¹³⁷ In October 2011, the first proposals for measures of national well-being were published. The proposed factors to be included in the measurement of national well-being are relationships, health, what we do, where we live, personal finance, education and skills, governance, the economy and the environment.¹³⁸

France has also taken steps to quantify well-being, going farther than most countries. President Sarkozy commissioned a report from Joseph Stiglitz and Amartya Sen to develop alternative measurements to well-being, which came out in 2009. The report outlined twelve recommendations: look at income and consumption rather than production; emphasize the household perspective; consider income and consumption jointly with wealth; give more prominence to the distribution of income, consumption and wealth; broaden income measures to non-market activities; develop and implement measures of social connections, political voice and insecurity; quality-of-life indicators should assess inequalities in a comprehensive way; surveys should be designed to assess

¹³⁶ Bok, *The Politics of Happiness*, 4.

¹³⁷ Daniel Bentley and Joe Churcher, ‘Cameron Defends Wellbeing Measure’, *The Independent*, n.d., sec. UK Politics, <http://www.independent.co.uk/news/uk/politics/cameron-defends-wellbeing-measure-2143595.html>.

¹³⁸ Jen Beaumont, ‘Measuring National Well-being - Discussion Paper on Domains and Measures’, *Office for National Statistics*, October 31, 2011, <http://www.ons.gov.uk/ons/rel/wellbeing/measuring-national-well-being/discussion-paper-on-domains-and-measures/measuring-national-well-being---discussion-paper-on-domains-and-measures.html>.

the links between various quality-of-life domains for each person; statistical offices should provide the information needed to aggregate across quality-of-life dimensions, allowing for new indexes; statistical offices should implement both objective and subjective measures of well-being; assess sustainability using a dashboard of indicators; and, develop indicators to assess environmental sustainability.¹³⁹

The report is the beginning of a discussion, not a final conclusion. France is moving away from complete reliance on GDP, but the country is doing it gradually. There is an ongoing discussion with the public, input from experts and the continued development of indices and measurements. Sarkozy is committed to moving away from GDP, saying, “GDP has increasingly become used as a measure of societal well-being, and changes in the structure of the economy and our society have made it an increasingly poor one... It is time for our statistics system to put more emphasis on measuring the well-being of the population than on economic production.”¹⁴⁰ Sarkozy’s presidency will not last forever, so whether or not France remains committed to this goal following his departure remains to be seen.

Ideal Alternative

The Canadian government has yet to make any official use of alternative indices. In Budget 2000, Paul Martin did commit funding to develop a set of environmental indicators, saying, “In the years ahead, these environmental indicators could well have a

¹³⁹ Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress* (Paris: The Commission, 2009).

¹⁴⁰ Philip Aldrick, ‘Nicolas Sarkozy Wants “Well-being” Measure to Replace GDP’, *The Telegraph*, September 14, 2009, <http://www.telegraph.co.uk/finance/economics/6189582/Nicolas-Sarkozy-wants-well-being-measure-to-replace-GDP.html>.

greater impact on public policy than any other single measure we might introduce.”¹⁴¹

These indicators have not, however, greatly impacted Canadian public policy, nor have any alternatives to GDP. It is other nations of the world that are slowly taking the lead in prioritizing alternative measurements.

Ideally, governments would take into account both subjective measures and objective measures. In other words, it is necessary to measure the factors that affect well-being, but also well-being itself – people’s overall satisfaction with their lives. The alternative index would be comprised of objective measures. Then, in addition, subjective measures, which should correlate with the index, would be analyzed alongside. The alternative measurement must be complex enough to provide detailed accounts of what is moving well-being in a certain direction, but it must also be simple enough to be understood by the average observer. Ideally, the measure would also be transferable across different countries of the world. Only having past years as a comparable is a notable shortcoming of an index like the CIW; being able to compare well-being throughout the world is preferable.

The ideal alternative to GDP must still consider economic factors, as economics still has some – just not all – bearing on well-being. Economic factors must not just include income, but disposable income, savings and debt. However, the measurement must also consider the various other influences on well-being, including social indicators such as inequality, unemployment, leisure time and crime, and environmental indicators, such as ecological footprint, water quality, energy sustainability and pollution levels. All of these indicators are quantifiable and should be weighted according to their influence

¹⁴¹ Anielski, *The Economics Of Happiness*, 10.

on well-being. Creating such an index is more than possible, as similar ones are already in existence.

The problem is not that there is no superior alternative to GDP; many alternative measurements exist already. Although there has been some progress in recent years, the problem is a general lack of political will. There is little motivation for politicians to implement such grandiose changes that are long-term in nature. Politics operates on a four- or five-year cycle; however, changing how a country measures its economy is a strategy that will benefit a country on a much longer timeframe. Since superior measurements to GDP exist already, this paper has sought primarily to argue *why* a move away from GDP is necessary. Thus, it has not been necessary to propose a new alternative measure, but to explain some of the advantages of the ones that exist already.

Responding to Criticisms

A common argument in favour of GDP is that it is less subjective than these alternative indices. Measuring well-being, it is argued, is too subjective, relying on what others claim is ‘good’.

First of all, the indices do not measure arbitrary factors picked by a government official. These indices are designed to measure what everyone values. In other words, the so-called subjective measures are based on objective findings – what people have been found to value. This is why it is so important to measure both subjective and objective factors; the two should correlate. If the subjective indicators suggest that well-being is increasing but life satisfaction surveys suggest that it is not, then the indicators need to be re-evaluated. They have to reflect what actually impacts well-being.

Measuring both subjective and objective factors also helps ensure a level of fairness. It is not enough to only measure people's well-being; one has to measure the factors that enable the good life. A homeless person may be just as content as a business owner, but that does not make his or her situation just.

Still, it might be argued that surveys of self-reported well-being are too subjective; one person's four might be another person's five. On the surface, this might seem to undermine the findings of self-reported well-being. However, as Daniel Gilbert explained, this is not a problem for researchers. If measuring a large enough group of people, the inaccuracies cancel themselves out. It is like measuring the temperature of people with faulty thermometers. If you measured 100 people's temperature, exposed half of them to a flu virus, then measured their temperatures a week later, the thermometers would undoubtedly show a rise in temperatures for the group that was exposed.¹⁴² Some thermometers would overestimate and some would underestimate, but the inaccuracies would cancel themselves out. Gilbert notes that these inaccuracies make it impossible to accurately measure one person's exact level of happiness at a certain moment; however, it is "perfectly appropriate for the kinds of measurements most psychological scientists make."¹⁴³ Surveying people's life satisfaction is accurate in large numbers and is now quite useful for policymakers.

If there were a systemic bias, surely self-reported well-being would be unrelated to scientific measures. However, that is simply not the case. Self-reported levels of satisfaction are directly correlated to levels of serotonin in the brain.¹⁴⁴

¹⁴² Morse, 'The Science Behind The Smile. (cover Story)', 86.

¹⁴³ Ibid.

¹⁴⁴ Simon N. Young, 'How to Increase Serotonin in the Human Brain Without Drugs', *Journal of Psychiatry & Neuroscience* 32, no. 6 (2007): 394–9.

Subjective experiences are used all the time for decision-making. It is exactly what an eye doctor does when fitting someone for glasses.¹⁴⁵ The doctor puts a lens in front of the patient, asks for a report on that person's experience, puts up another lens, then another lens and so on. The doctor uses the subjective reports that the patient gives in order to design a lens that will enable perfect vision. The same is true when collecting data on self-reported well-being.

Not only is subjectivity not a problem, it is what makes these alternative measurements superior than GDP. Of course well-being is subjective. Everyone has different values and a different combination of factors that make their life better or worse. Alternative measurements take a great number of these factors into account, while GDP accounts for only one – economic production. To assume that a rise in economic production will benefit a diverse group of people is a grave error. Finding out what it is people actually value is the first step in properly measuring real progress.

It should also be mentioned that GDP is not itself objective. In fact, no objective indicator exists because the methodology of constructing any indicator involves decisions by researchers that ultimately affect the measured outcome.

The second main criticism of alternative measurements is that they are difficult to measure. With respect to objective measurements – people's self-reported level of well-being – the process is actually quite simple. Daniel Gilbert remarks that there are a number of different ways to approach this problem – magnetic resonance imaging to measure cerebral blood flow, electromyography to measure the activity of smile muscles or asking people how happy they are.¹⁴⁶ Two of those approaches are incredibly costly

¹⁴⁵ Morse, 'The Science Behind The Smile. (cover Story)', 85.

¹⁴⁶ Ibid., 85–86.

and complicated, but all three are highly correlated. So, if surveying people's life satisfaction is just as effective as the highly complex methods, it is clear that the process is relatively straightforward.

Calculating the various factors that contribute to well-being, on the other hand, is in fact a difficult process. Alberta's GPI has 51 different indicators, each of which is a complicated calculation in and of itself. GDP per capita is but one of the indicators, so clearly it is more difficult to calculate 50 additional gauges. The same is true of any alternative measurement.

The problem with GDP – not its strength – is its simplicity. Our values, well-being and progress cannot be encapsulated in a number, and especially not a number that measures only economic activity. Something as complex as well-being has to, by its nature, be difficult to calculate. Even these alternative measurements are not going to perfectly capture well-being, but they are most certainly an improvement.

It will take more resources and time to develop and use alternative measures to GDP due to their inherent complexity. However, that is not a sufficient argument in favour of GDP. “Complexity is hardly a reason for refusing to accept policy objectives that are otherwise worth having.”¹⁴⁷

Conclusion

This chapter has sought to explain alternative approaches to analyzing well-being. The ideal measurement would be one that analyzes a wide variety of factors, since a wide variety of factors affects well-being. Not only is it necessary to measure the factors that

¹⁴⁷ Bok, *The Politics of Happiness*, 57.

affect well-being, but it is also necessary to measure well-being itself. Both should move in the same direction. Ideally, the alternative measurement would also be compatible throughout the world in order to make straightforward comparisons of different countries and regions; however, domestic indicators may have more appeal for domestic policy. Calculating something as complex as human well-being is not easy, nor should it be. Superior approaches exist already; it is just a matter of giving them higher priority than economic growth.



Conclusion

GDP is the most commonly used indicator in assessing the progress of a country. It is generally assumed that the higher the GDP, the better off the citizens of that country are. However, for developed nations, this is not the case. This paper has shown that higher GDP has not resulted in increased well-being – overall satisfaction with life – for citizens in developed countries. GDP has grown dramatically in these nations, but well-being has not. For the past few decades, well-being has remained relatively constant in developed countries. Despite more money and more possessions, people are no happier with their lives. This is partly due to GDP, and our economic system as a whole, valuing the wrong aspects.

Increasing wealth and buying material goods does not increase well-being, while relationships, good health and democratic governance does. GDP does not measure what truly contributes to well-being, and it also counts as ‘good’ the aspects that make people’s lives worse – environmental degradation, long working hours and debt, among others. GDP is simply a poor measure of well-being, so other alternatives are necessary.

Using a new indicator – one that accurately reflects well-being – changes what the economy values. It is the first important step in working to improve the lives of citizens. Many alternative indicators exist already, each with their own particular advantages and disadvantages. This paper has sought to explain why a country should move beyond GDP and instead gauge progress with an alternative measurement comprised of a variety of indicators. Not only will this more accurately reflect societal well-being, it changes the conversation. It eventually moves society away from the wrong goals and toward the ones that contribute to increased life satisfaction.

It may not be easy to convince policymakers to move beyond GDP, as it has been the most common measure of progress for the last few decades. Nevertheless, there are signs that governments, such as in France and the United Kingdom, are slowly beginning to question the dogma of economic growth. If we truly value the well-being of individuals, it is time to move beyond the simplistic and misleading measure of GDP.

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