Beyond GDP: Measuring Welfare and Assessing Sustainability
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Print publication date: 2013
Published to Oxford Scholarship Online: May 2013
DOI: 10.1093/acprof:oso/9780199767199.001.0001

The Four Musketeers
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DOI:10.1093/acprof:oso/9780199767199.003.0001

Abstract and Keywords
This introductory chapter begins with a brief discussion of the need to find better alternatives to GDP or GNP as the main indicator of social progress and countries’ success. It suggests that the design of good indicators of social performance should ideally be the collective endeavor of social scientists from many disciplines, and should rely on the views of the populations whose well-being is to be measured. The chapter then describes four approaches (the “four musketeers”) discussed in this book, that seek to fight the power of GDP, along with an overview of the subsequent chapters.

Keywords: GDP, economic indicators, social indicators, social performance
Too much and for too long, we seem to have surrendered personal excellence and community values in the mere accumulation of material things. Our gross national product ... counts the 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 redwoods and the loss of our natural wonders in chaotic sprawl. It counts napalm and it counts nuclear warheads, and armored cars for the police who fight the riots in our streets. ...

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 our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile.

—Robert F. Kennedy Address, University of Kansas, Lawrence, Kansas, March 18, 1968

The valuable capacity of the human mind to simplify a complex situation in a compact characterization becomes dangerous when not controlled in terms of definitely stated criteria. With quantitative measurements especially, the definiteness of the result suggests, often misleadingly, a precision and simplicity in the outlines of the object measured. Measurements of national income are subject to this type of illusion and resulting abuse, especially since they deal with matters that are the center of conflict of opposing social groups where the effectiveness of an argument is often contingent upon oversimplification.

Although the economist does not have the politician’s flamboyant style, these two quotations show that the common use of GDP or GNP as the main indicator of social progress and countries’ success over the last decades has been, early on, warned against by its creator and by prominent decision-makers. But even if economists cannot be accused of overselling the GDP, they should perhaps feel a special responsibility for helping to construct better alternatives.

This is the perspective from which this book is written. This does not mean that we believe that economic theory provides a ready-to-go alternative indicator. The design of good indicators of social performance should ideally be the collective endeavor of social scientists from many disciplines, and should rely on the views of the populations whose well-being is to be measured. First of all, it involves addressing hard ethical issues about distributive justice. The evaluation of individual situations and social states of affairs requires defining what should be distributed between the members of society (subjective well-being, resources, opportunities ...), and how it should be distributed, that is, how much priority should be given to the worst-off. These two sets of issues articulate social evaluation and interpersonal comparisons, two famously difficult value-laden exercises.

While the difficult ethical issues cannot be answered once and for all and cannot be answered with the scientific authority of the standard corpus of economics and other social sciences, it is important to recognize that there are concepts and theories that do shape the questions in a remarkably helpful and clarifying way. And it so happens that welfare concepts have been developed by economists, sometimes in relation to moral and political philosophy, because of their role as advisors in the assessment of economic and social policy. In a nutshell, while the economist cannot answer the ethical questions, “welfare economics”, a subfield of economic theory that we broadly construe as encompassing social choice theory and the theory of fair allocation as well as more traditional fields such as cost-benefit analysis, now provides a useful array of concepts that help formulate such questions. We would therefore like this book to help economists, social scientists, decision-makers, and interested persons to better identify the
pros and cons of various approaches and their ethical underpinnings.

Obviously, we do not have to start from scratch, as a whole industry has set out to produce alternative indicators, following an exponential growth curve over the last three decades (as described by Gadrey and Jany-Catrice, 2006). Our goal is to provide a critical examination of the main approaches. We have identified four approaches (the “four musketeers”) that seek to fight the power of GDP, although, for reasons to be explained shortly, one should perhaps distinguish five approaches. The first approach proposes to gather various indicators of social performance into a hybrid, composite index, in which GDP per capita or total household income generally is one component among others such as unemployment, health, and poverty. The Human Development Index, regularly published for international comparisons since UNDP, (1990), and recently revisited in UNDP, (2010), is the most famous of such indicators. This approach is perhaps the simplest because it does not rely on sophisticated theory—this provides a key advantage in terms of potential popularity. It is discussed most specifically in chapter 1 of this book.

Chapter 2 is devoted to the specific issue of sustainability. While this is not exactly the same issue as measuring the well-being of the present generation, it has been quite natural for the inventors of alternative indicators to think of the hazards to future generations induced by unfettered economic growth. “Greening” GDP, or measuring the ecological “footprint” of the present generation, has become a fashionable approach in this context. This chapter therefore deals with an important aspect of the problem of going beyond GDP. It also provides a nice transition between the composite approaches discussed in chapter 1 and the monetary approaches examined in chapter 3, because various sustainability indicators have been constructed following the composite and the monetary methodologies.

The monetary approaches, as the name clearly suggests, keep the monetary metric of the GDP but seek to change the contents. A pioneering initiative in this vein has been made by Nordhaus and Tobin, (1972). The monetary approaches are at the extreme opposite of the composite approaches insofar as they are most demanding in terms of economic theory.
background. We will therefore devote two chapters (chapters 3–4) to them. As we will explain in these chapters, there is an important distinction between the approaches that seek to put a uniform price on each dimension of well-being that GDP does not cover (or wrongly covers), and the approaches that use the monetary metric through individual willingness-to-pay and “equivalent income,” allowing different values for different people. The latter offer much more flexibility, receive much better support from basic principles, and are even able to go beyond the money metric itself in order to refer to generalized opportunity sets rather than ordinary market-like budget sets. A separate discussion in two chapters appeared therefore necessary. In chapter 3 we explain the limits of the former approach (uniform pricing), but also discuss the more promising idea of keeping a role for total income as a component of an index of social welfare. The latter approach (equivalent income) is studied in detail in chapter 4, with a review of the criticisms it has been subjected to after it was first used in the late 1970s and early 1980s. We will argue that these criticisms are not insurmountable, so that the approach remains actually quite valuable.

(p.xiv) The third approach discussed in this book involves direct measures of subjective well-being. Interest in this approach has soared in the last 20 years, mostly drawn by the development of happiness data and the application of econometric techniques to them. For an economist it is quite a revolution, in view of the long skepticism about such measures in the discipline in most of the twentieth century. In Chapter 5 we analyze the ethical underpinnings of subjective well-being indicators, their connections to psychological and philosophical background theories, their relation to economic concepts, and also the empirical strategies for possible improvements to data collection. The key issues discussed in that chapter have to do with the practical and ethical problem of comparing subjective declarations across individuals in order to estimate the distribution of well-being in a given population. Subjective well-being data are often believed to provide a direct measure of well-being, or at least a good proxy, but things are not so simple. There is a real danger that they are significantly misleading.
The fourth approach, dealt with in chapter 6, is Amartya Sen’s capability approach, which has also become considerably attractive to many scholars and activists after it was first formulated in the mid-1980s (Sen, 1985). Although the approach is often associated with the Human Development Index, this index is, due to data limitations for wide international comparisons, a pale reflection of the general and ambitious methodology proposed by the capability perspective. It is especially interesting to discuss this approach, not as a radically different view, but as a methodology that relates in complex ways to the approaches discussed in the preceding chapters. Although it is sometimes described as mainly focused on objective dimensions of life, it actually makes room for subjective aspects of well-being, but not as much as the equivalent income approach of chapter 4 and the subjective well-being approach of chapter 5 do. This, however, remains a matter for discussion, as the ambition to respect the values and preferences of the population whose well-being is to be measured is widely shared among the approaches described in this book.

To a substantial extent, the ideal of respecting the population’s values and preferences provides the thread of the book, as each approach rebels against GDP for its failure to live by that ideal, and each approach tries to incorporate new elements that go in that direction. We will show in this book that the various approaches unequally succeed in capturing the population’s values and preferences. Our conclusion will be that most if not all of these approaches deserve to be pursued, but some of them must acknowledge that they involve a substantial degree of paternalism and perfectionism, more than their advocates typically admit. While the obsession with GDP puts “the mere accumulation of material things” above “personal (p.xv) excellence and community values” (Kennedy), many of the alternative indicators are not more neutral and promote other values, such as good feelings or particular freedoms. Among the approaches examined in this book, the equivalent income will be shown to be the most respectful of people’s goals in life—which is an advantage over the other approaches only if people’s goals are respectable!

The authors of this book have been involved in the works of the Stiglitz-Sen-Fitoussi Commission,3 whose mandate was to reconcile the diverging outlooks provided by standard indicators and by the perceptions of the population. The report
of the Commission identifies various areas in which more effort should be made by statistical institutions and those who use the data. These include in particular the three approaches discussed in our chapters 4, 5, and 6, as well as the sustainability issues analyzed in chapter 2.

This book is built upon some of the work that has been done by the authors for the Commission, some of which has been published or made available on the Commission or INSEE websites (Fleurbaey, 2009; Afsa et al., 2008; Blanchet, Le Cacheux, and Marcus, 2009). While survey papers and committee reports provide essential elements, they often remain superficial on the technical aspects and the ethical ramifications. With this book, we seek to provide additional material for those who would like to go further and better understand the issues and the possible solutions. The problem of designing a good indicator of social progress is a tremendous opportunity to connect various areas of economics and other social sciences and is a great source of inspiration given the number and scope of debates and questions that remain open to this day.

Surveys and reports also obey certain rules of restraint and balance, whereas a book like this one is a better place to explore original ideas. While we sought to remain comprehensive, we have not hesitated to adopt a critical tone and a more personal perspective in the assessment of the various arguments and approaches, and to propose new ideas and new articulations of the various approaches.

The book is written for readers who are already familiar with the main concepts and issues rather than for readers who seek an easy introduction to the topic. But most of the text is written so as to be widely accessible to readers with an undergraduate background in economics. It should also be accessible to motivated readers with a mere elementary background in calculus, because the technical concepts from economic theory are always defined and introduced when they are used in the argument. This is not a textbook, and the text contains few formal results; it focuses on the ideas and arguments in the quest for alternative indicators.

In terms of technical difficulty, chapter 3 is the most demanding, but because it is mostly critical of the use of pricing in monetary indicators, it is also the least necessary to
grasp the main messages of the book, so that it can be skipped by the reader without losing much. Note, however, that this chapter contains a constructive part, dealing with the question of writing a formula for social welfare as a function of efficiency and equity components, in which total income could appear as an element among others. Chapter 2 on sustainability can also be skipped without losing the thread in the other chapters, but obviously this does not mean that sustainability issues are less important. A reader who is especially interested in happiness or capabilities can start with chapter 5 or 6 and look at the other chapters when references are made to them.

Acknowledgments
In the preparation of this book, we have benefited a lot from interactions and collaboration with many colleagues, in particular in the Stiglitz-Sen-Fitoussi Commission, which was a very stimulating experience. Our coauthors in earlier work dealing with the topics discussed here have been very influential and inspiring, although any responsibility for the shortcomings of this text should not be attributed to them. Various parts of the manuscript have greatly benefited from detailed comments, for which we are very grateful, by Angus Deaton, Koen Decancq, Juan Moreno-Ternero, Erik Schokkaert, and Giacomo Valletta. Reactions from the audience at an Urrutia-Erejalde summer school session in 2012 have also been helpful. Discussions with Geir Asheim, Larry Pervin, and Justin Wolfers are also gratefully acknowledged. Joe Jackson, Terry Vaughn, and the editorial team at Oxford University Press have been steadily helpful, efficient, and encouraging. Last but not least, our families deserve our warmest gratitude for their wonderful support during the long months of preparation of the manuscript.

Notes:
(1) The speech can be listened to at http://www.youtube.com/watch?v=77IdKFQXbUY.

(2) The quote is taken from Costanza et al. (2009, p. 8).

(3) Details about the Commission, including its downloadable report, can be found at www.stiglitz-sen-fitoussi.fr.