








**Illustration by Robert Samuel Hanson**

## Moving beyond economic measures of well-being

**By Kurt Kleiner**



AS WE WAIT FOR THE END OF a global economic slowdown, politicians, economists and worried citizens are keeping an eye on month-to-month changes in Canada's national income. They're watching for the sustained uptick that will signal an end to the recession.

When the collective income of Canadians—or Gross Domestic Product (GDP)—falls significantly, companies go bankrupt, people are thrown out of work, houses are foreclosed on and even those who hold onto their jobs become more insecure and anxious. It's easy to see why GDP, which tallies the market value

of all goods and services produced in a country, has become a de facto measure of well-being and prosperity.

The problem is that GDP was never designed to be any such thing; it was simply intended to measure the economy's ups and downs. Critics say that a focus on this one economic indicator can distract us from other factors that are at least as important to our sense of well-being. At worst, a rise in GDP can suggest that everyone is doing better, even if many people are actually doing worse.

In September, Nobel Prize-winning economists Joseph





“The obsession with GDP is unhealthy.  
Looking at just GDP is disastrous  
when it comes to thinking about all the  
ways we might choose to spend our  
wealth as Canadians”

Stiglitz and Amartya Sen released a report commissioned by French president Nicolas Sarkozy warning that an over-reliance on GDP might have actually blinded us to the economic problems that led to the most recent recession.

“What you measure affects what you do,” Stiglitz said at an economics seminar after the release of the report. “If you don’t measure the right thing, you don’t do the right thing.”

But figuring out a way to measure our “true” well-being has its own pitfalls. What creates well-being if not wealth? What is true prosperity? How do you measure these things? A number of U of T researchers are investigating such questions in their work.

Hugh Mackenzie is an economic consultant and a research associate at U of T’s Centre for Urban and Community Studies. He has been working with a new organization called the Canadian Institute of Wellbeing, helping to develop the Canadian Index of Wellbeing. The index is intended to be a single number, whose rise and fall can be reported along with GDP, unemployment, the prime rate and other economic indicators. The institute was initially funded by the Atkinson Charitable Foundation, which former *Toronto Star* publisher Joseph E. Atkinson established to promote social and economic justice. The institute has since picked up support from other foundations and the province of Ontario.

“Essentially we’re saying that we’re measuring what matters,” Mackenzie says. “The obverse of that phrase is that if you don’t measure it, it doesn’t count. If we can find ways of measuring such things as health, education and environmental quality, we can also help make those things count when people think about public policy decisions,” he says.

To understand why GDP alone isn’t enough, it’s important to know what it does and does not measure.

GDP adds up the final cost of every good or service that is sold within a country’s borders. It’s a measure of how much an economy produced, or, looked at another way, the total income of everyone living in that country. You can use GDP to compare the sizes of different economies (Canada’s \$1.3-trillion GDP ranks 15<sup>th</sup> in the world), or give a rough idea of how wealthy

individuals are on average (according to the *CIA World Factbook*, our per capita GDP of \$39,100 ranks 22<sup>nd</sup> in the world).

But GDP isn’t a perfect indicator of economic activity. For one thing, it doesn’t account for goods and services that aren’t paid for. So if you do all of your housework and child care yourself, that work is overlooked. On the other hand, if you hire a nanny and a housekeeper, suddenly the same work shows up in the national income.

GDP also doesn’t include value judgments about how or why the money is being spent. So if a steel manufacturer creates huge amounts of pollution, the cost of the steel it makes is added to national income but the harm from the pollution doesn’t show up as a debit. In fact, if other people are forced to take measures to mitigate the harm from the pollution, those measures boost GDP as well.

GDP also says nothing about income distribution. Rising GDP can mean everyone is a getting a little better off – or it can mean a few people are vastly better off, and everyone else is the same or even worse off.

And finally, GDP is bad at measuring public goods. If a country passes environmental regulations that clean up the air and water, national income might increase because of the cost to industry of mitigation measures. But the benefit of clean air and water to health and general enjoyment of life won’t appear anywhere on the ledger.

“The things that we trade in a market economy have prices that we can add up,” says Mackenzie. “But when you start thinking about environmental quality, or income inequality, or social cohesion, or the social benefits to education, or the social benefits associated with a healthier population, those things aren’t traded in the marketplace.”

In his report earlier this year, Stiglitz said that an overemphasis on GDP kept American policy-makers from seeing other signs that the U.S. economy was weak. Huge profits in the financial sector and a spending spree by consumers kept the economy growing. But both profits and spending depended on massive borrowing by banks and consumers. In effect, the increased national income was borrowed from the future,





**“The obsession with GDP is unhealthy. Looking at just GDP is disastrous when it comes to thinking about all the ways we might choose to spend our wealth as Canadians”**

Stiglitz and Amartya Sen released a report commissioned by French president Nicolas Sarkozy warning that an over-reliance on GDP might have actually blinded us to the economic problems that led to the most recent recession.

“What you measure affects what you do,” Stiglitz said at an economics seminar after the release of the report. “If you don’t measure the right thing, you don’t do the right thing.”

But figuring out a way to measure our “true” well-being has its own pitfalls. What creates well-being if not wealth? What is true prosperity? How do you measure these things? A number of U of T researchers are investigating such questions in their work.

Hugh Mackenzie is an economic consultant and a research associate at U of T’s Centre for Urban and Community Studies. He has been working with a new organization called the Canadian Institute of Wellbeing, helping to develop the Canadian Index of Wellbeing. The index is intended to be a single number, whose rise and fall can be reported along with GDP, unemployment, the prime rate and other economic indicators. The institute was initially funded by the Atkinson Charitable Foundation, which former *Toronto Star* publisher Joseph E. Atkinson established to promote social and economic justice. The institute has since picked up support from other foundations and the province of Ontario.

“Essentially we’re saying that we’re measuring what matters,” Mackenzie says. “The obverse of that phrase is that if you don’t measure it, it doesn’t count. If we can find ways of measuring such things as health, education and environmental quality, we can also help make those things count when people think about public policy decisions,” he says.

To understand why GDP alone isn’t enough, it’s important to know what it does and does not measure.

GDP adds up the final cost of every good or service that is sold within a country’s borders. It’s a measure of how much an economy produced, or, looked at another way, the total income of everyone living in that country. You can use GDP to compare the sizes of different economies (Canada’s \$1.3-trillion GDP ranks 15<sup>th</sup> in the world), or give a rough idea of how wealthy

individuals are on average (according to the *CIA World Factbook*, our per capita GDP of \$39,100 ranks 22<sup>nd</sup> in the world).

But GDP isn’t a perfect indicator of economic activity. For one thing, it doesn’t account for goods and services that aren’t paid for. So if you do all of your housework and child care yourself, that work is overlooked. On the other hand, if you hire a nanny and a housekeeper, suddenly the same work shows up in the national income.

GDP also doesn’t include value judgments about how or why the money is being spent. So if a steel manufacturer creates huge amounts of pollution, the cost of the steel it makes is added to national income but the harm from the pollution doesn’t show up as a debit. In fact, if other people are forced to take measures to mitigate the harm from the pollution, those measures boost GDP as well.

GDP also says nothing about income distribution. Rising GDP can mean everyone is a getting a little better off – or it can mean a few people are vastly better off, and everyone else is the same or even worse off.

And finally, GDP is bad at measuring public goods. If a country passes environmental regulations that clean up the air and water, national income might increase because of the cost to industry of mitigation measures. But the benefit of clean air and water to health and general enjoyment of life won’t appear anywhere on the ledger.

“The things that we trade in a market economy have prices that we can add up,” says Mackenzie. “But when you start thinking about environmental quality, or income inequality, or social cohesion, or the social benefits to education, or the social benefits associated with a healthier population, those things aren’t traded in the marketplace.”

In his report earlier this year, Stiglitz said that an overemphasis on GDP kept American policy-makers from seeing other signs that the U.S. economy was weak. Huge profits in the financial sector and a spending spree by consumers kept the economy growing. But both profits and spending depended on massive borrowing by banks and consumers. In effect, the increased national income was borrowed from the future,

Stiglitz says. And rising GDP masked the fact that median income in the U.S. had actually fallen between 2000 and 2008, due to increasing income inequality – in other words, the majority of people were actually worse off.

“The obsession with GDP is very unhealthy,” says Joseph Heath, a philosophy professor whose work often deals with economic issues. “Looking at just GDP is really disastrous when it comes to thinking about all the ways in which we might reasonably choose to spend our wealth as Canadians.”

In addition to problems with income inequality and measurement of public goods, GDP says nothing about the value of work versus leisure, or about what we give up to boost national income. For instance, if a change occurred in the economy that boosted GDP but made everyone’s job less secure, overall well-being might actually go down even as it looked like things were getting better, Heath says. “The risk of unemployment is a huge source of ‘illfare,’ or unhappiness,” he adds.

There have been a number of attempts to develop alternatives to the GDP that measure a society’s collective well-being. For instance, the UN Human Development Index combines GDP with measures for health and education. The Happy Planet Index, calculated by the U.K.-based New Economics Foundation, combines life expectancy and subjective life-satisfaction, and also factors in how environmentally sustainable a country’s economic activity is. The country of Bhutan measures Gross National Happiness. There’s also a Genuine Progress Indicator, a Green Gross Domestic Product, a Living Planet Index, a Life Quality Index and more.

Unlike some of the other indicators, though, the Canadian Index of Well-Being (CIW) is not intended to compare countries to one another, but to be specific to Canada. Lynne Slotek, the institute’s CEO, said the group went through a public consultation process, holding meetings around the country to invite input from citizens. Based on those meetings, the institute’s research advisory board drew up a list of eight areas that Canadians think contribute to well-being – living standards, healthy populations, community vitality, environment, education, time use, democratic engagement, and arts, culture and recreation.

The institute is working with researchers across Canada to develop indicators to measure each of these areas. For instance Ilene Hyman, an assistant professor in the epidemiology division at U of T’s Dalla Lana School of Public Health, is helping the CIW select six or eight indicators that will measure changes in time use and how they affect well-being.

The indicators need to measure things such as time spent at work, time spent commuting and time engaged in child care. Other indicators might measure how satisfying or frustrating the time spent at work is, or how the availability of quality child care affects people’s use of time.

“For this index they want to be able to rely on data that’s routinely collected in Canada,” Hyman says. “Unfortunately, when you get into things like work-life conflict, which is emerging as an important issue for Canadians now, there’s no

regularly collected source of data.” Hyman discovered one potentially useful survey, but found that it was conducted only once every 10 years. So in addition to identifying existing sources of information, Hyman will also recommend what information should be collected in the future.

In June, the CIW published the results of its first three domains of well-being – living standards, healthy populations and community vitality. The living standards report looked at nine indicators, including median income and income distribution. The report found that since 1981 Canadians have become wealthier, partly by working longer hours. But income inequality increased, and the poverty rate showed little improvement. The healthy populations report looked at 10 indicators, and found that in general Canadians enjoy good health. But people in the Northern territories have shorter life expectancies (in Nunavut it’s 10 years shorter than the national average), and life expectancy, adjusted for years lived in *good* health, actually peaked in 1996 nationally, and has declined slightly since.

The community vitality report looked at 11 indicators, including volunteer rates, number of close relatives, crime and discrimination. The report found that since the late 1990s people have become more active in organizations and volunteering, even as the size of their social networks has shrunk. Crime has gone down, and most Canadians feel safe walking alone after dark. But 35 per cent of visible minorities reported that they have experienced discrimination.

Eventually, when all of the reports have been published, the CIW will be distilled into a single number that can be tracked over time. Mackenzie envisions newscasters reporting changes to the CIW right alongside GDP and unemployment.

But what will that CIW number mean? One of the thorniest problems to solve in developing alternative measures of a society’s health is in deciding what constitutes well-being, and how to measure it, says Wayne Sumner, University Professor emeritus of philosophy.

The first question to resolve is whether well-being and happiness are, in fact, the same thing. Is well-being a set of good life circumstances that is associated with a subjective feeling of happiness? Or is a happy person by definition experiencing “well-being” regardless of his or her circumstances?

One approach is to concentrate on measurable factors such as longevity, good health and education level. You can measure these indicators, and declare whether well-being is rising or falling, without worrying about whether the citizens of a country actually agree with you.

The other option is to ask people how happy they are, and see how their answers match up with the circumstances of their lives. In fact, “happiness studies” have in recent years become a hot area in psychology.

But even if people report themselves to be happy, that might not be the end of the story, Sumner says. In his book, *Welfare, Happiness and Ethics* (Clarendon Press, 1999), Sumner explored the idea of “authentic” well-being.



Consider that in less developed countries, women tend to report themselves as happier than men do. The reason seems to be, Sumner says, that they are socialized to have lower expectations than men are. But most of us would be uncomfortable saying that a woman in that situation is truly better off. Instead, we would probably think that her sense of well-being was somehow inauthentic – the result of cultural indoctrination that says women shouldn't expect much from life. But Sumner adds that we all undergo social conditioning, and trying to separate normal conditioning from coercive social pressures can be tricky.

Heath warns that alternative indexes necessarily involve value judgments. For instance, the CIW is "welfarist" – it assumes people's welfare is the most important thing. But, in the United States, libertarian groups have their own indexes that assert that economic freedom is the most important value. And Heath cautions that even within a single country there are competing values. "There is no such thing as shared values of Canadians," he says.

Ulrich Schimmack is a psychology professor at U of T Mississauga who specializes in well-being research. Even if you decide that self-reported life satisfaction is the ultimate indicator of well-being, he says, it's still not clear what you need to do to increase it.

For instance, he says that GDP actually turns out to be a pretty good predictor of well-being, with people in rich countries reporting, for the most part, better life satisfaction than people in poorer ones. In fact, he says that GDP per capita correlates better with life-satisfaction surveys than do scores on the UN Human Development Index, which combines measures of life expectancy, education and GDP.

On the other hand, Schimmack says that economic measures don't tell the whole story. Otherwise, average happiness would tend to increase two or three per cent per year, right along with GDP – and that doesn't happen.

The problem with alternative indexes, Schimmack says, is that they don't necessarily measure variables that have been shown to be correlated with increased life satisfaction. Or, they measure a lot of different variables, all of which are highly correlated with one another, making it hard to figure out which ones are responsible for the increased well-being.

The study of well-being is at an early stage, he says, and it's probably too early to begin making policy decisions based on the research results.

The Martin Prosperity Institute at the Rotman School of Management is also trying to figure out how to measure well-being. Kevin Stolarick, the institute's research director, thinks that a region's well-being – its prosperity – comprises three basic elements. One is how wealthy individuals are. The second is the quality of public goods, which includes the quality of life. Third is how evenly distributed income is.

Researchers are concentrating on the problem of the growing gap between what Richard Florida, director of the Martin Prosperity Institute, has dubbed the high-earning "creative class" and the service class that supports them. "In the next 20 years Ontario needs to boost the percentage of the workforce that works in creative positions from 30 to 50 per cent," says Stolarick. "But getting to 50 per cent doesn't mean we have to hire a lot more musicians. Getting to 50 per cent means we have to take existing jobs and make them more creative.... We need to increase the skill content, we need to increase the autonomy of the job itself, we need to make the person more responsible."

Stolarick is familiar with the CIW's index. "They have followed the kitchen sink approach," he says. "For right now, that's great. Collect as much data as you can possibly collect. Then you can actually start looking at the data."

But James Pesando, a professor of economics at U of T, is skeptical that anyone will ever come up with a useful single measure of well-being. Trying to decide what measures to include in the index, and how much weight to give to each, is simply too subjective. "The efforts have been here for 40 years, and they'll be here for another 40 years," he says.

Mackenzie admits the CIW advisers puzzled for a long time over how to weight the factors – how much emphasis to give to a change in the poverty rate versus a change in income distribution versus a change in environmental quality, for instance.

"The psychological breakthrough we made is that it doesn't matter," he says. The important thing about the index is to get a conversation going about the many factors that affect Canadian well-being. "In a society as diverse and complex as this, you're never going to find a set of weights that everyone will say corresponds to well-being.... The index pulls together a number of different things all in one place and invites people to say, 'That's interesting.'"

*Kurt Kleiner is a freelance writer in Toronto who reports frequently on science and technology. He wrote "Why Smart People Do Stupid Things" in the Summer 2009 issue.*