

# The Steady State Economy Conference

Working Towards an Alternative to Economic Growth

Policy Proposal

## Workshop 5: Measuring Progress / Quality of Life

**Author:** Saamah Abdallah

**Question:** How can progress towards meeting basic needs and improving the personal well-being of the majority of the population be measured and monitored in a steady state economy?

### Background

Currently, national progress is defined in terms of increases in Gross Domestic Product (GDP). New policies are assessed in terms of their impact on GDP. The benefits of new technologies and of industrial sectors is determined in terms of GDP. Even sustainability is frequently framed in terms of reducing environmental impact per unit of GDP.

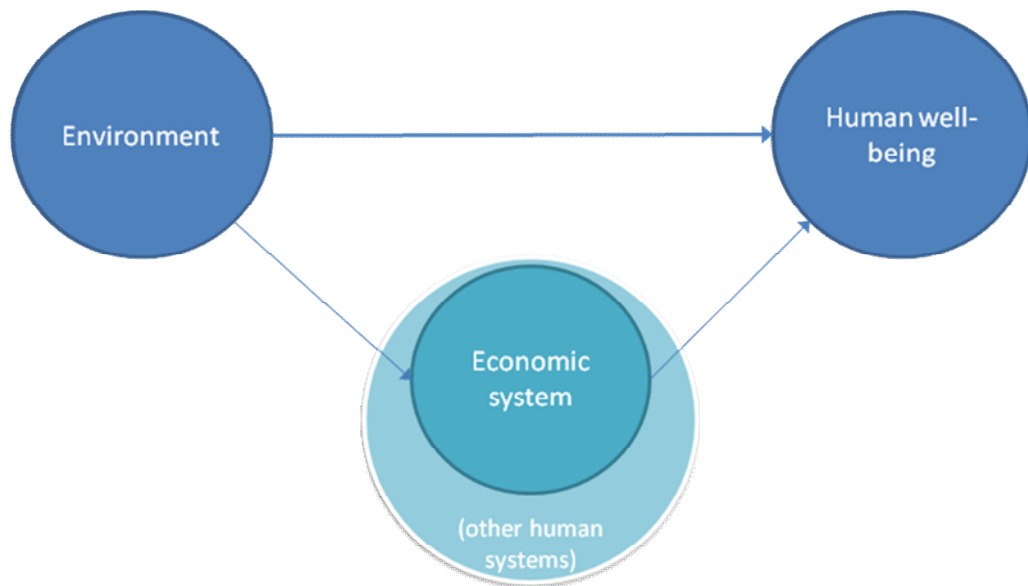
By definition, adoption of a Steady State Economy is a rejection of this focus on GDP. Clearly our old methods for measuring progress will thus be made defunct.

But this does not mean that we should simply abandon measurement. In times of flux, when new ideas are being tested out, it is more important than ever to measure, so as to determine whether progress is being made, or harm is being done, by new economic and social systems. As such we need to implement new measures of progress.

These new measures need to be consistent with the goals of Steady State Economics - sustainable scale, fair distribution, efficient allocation, and a high quality of life (clearly GDP does not help us assess progress towards these ends very well).

### Proposal

The following is a proposition for measuring progress in the context of a Steady State Economy, or indeed any other context. It proposes that three domains form the focus of measurement: the environment, the economic system and well-being. Their relationships to one another are shown in the diagram below:



The following points outline this position in detail:

1. Well-being is the ultimate goal of individual endeavour, and therefore the progress of *society* can be assessed by the extent to which it supports **sustainable equitable human well-being**.
2. Well-being is about people's experience of their lives. As such, it cannot be assessed without **subjective** indicators – without asking people. Well-being is not sufficiently measured by measuring factors such as education levels, or housing, or participation in society. These are all things which we believe to be important to well-being, but they are determinants of it, rather than actually being well-being themselves. The distinction is between means and ends – from the perspective of the individual – with a person's well-being being their end, and the other factors means to achieve that end. This is illustrated with an example. If you ask someone why they want an education, they can provide meaningful answers (they want to get a job, they want to build their knowledge, they want to please their parents, etc.). But if you ask them why they want to be happy, they will look at you rather strangely.
3. Having said that, well-being is more than just happiness – psychology has demonstrated the importance of other feelings and experiences. We propose a **flourishing** or eudaimonic approach which assesses how well people's psychological needs are being met (for example needs for autonomy, competence and relatedness). Such an approach provides a multi-dimensional understanding of well-being. Elements included should be more or less universal – i.e. important to all people.
4. Beyond experience of life, it also makes sense to include **life expectancy** within this domain – as a happy short life is not necessarily preferable to a less happy, but longer life.

5. The **natural system** is the ultimate resource on which human well-being depends and our current impact upon it the greatest threat to future human well-being – as such environmental impact must be assessed thoroughly, and minimised.
6. There are many determinants (for example culture, governance, social norms) of well-being, but one of the most important in today's society is **economic activity**, formal and informal. Economic activity sustains present well-being, but it also shapes future well-being through its impact on built capital. Its importance is not only due to the outcome of productive activity, in terms of goods and services, but also in terms of employment which has non-material importance for well-being. On the other hand, it tends to have a negative impact on natural resources. Perhaps most importantly, given that it is the economy which we have identified to be at the heart of the problem with the current system, changes here must be monitored carefully as we move to a steady state economy. What happens to employment? What happens to our ability to support the elderly? What happens to our working hours? Economic activity is neither an ultimate end nor an ultimate resource, and therefore it does not *a priori* need to be either minimised or maximised, but kept at that level which ensures well-being is high, and environmental impact is low.
7. As well as measuring within each of these three domains, the connections between them should also be measured. To ensure sustainable, equitable well-being, societies need to enhance the **efficiency** with which natural resource use is transformed into well-being. This could be measured by something like the Happy Planet Index (which divides one by the other). Indeed, this could be seen as the best overall indicator to assess overall progress – as it captures the key outcome (well-being) and the key resource (natural system). However, it is not necessarily the case that increasing HPI is a desirable thing, as it does imply substitutability between well-being and the environment which is not necessarily the case (for example, increasing well-being at a large environmental cost might increase this efficiency measure, but might not be desirable).
8. Each domain would include one **headline** indicator, and a set of more **detailed** indicators.
9. Across all areas of measurement, particularly well-being and the economic system, **distribution** must be considered intelligently. In some cases using medians may be more appropriate than using means, or the percentage below certain thresholds. In others, a general variance factor should be considered. In others still, specific distribution concerns may be most important, such as distribution across economic groups, gender or minority groups.
10. Another factor that needs to be assessed is **resilience** to change, or adaptive poise. Developing indicators for assessing these issues is an important next step.

Developing new indicators is an excellent early step for transition to a steady state economy. As Dana Meadows, one of the authors of *The Limits to Growth*, wrote in 1998:

“Indicators arise from values (we measure what we care about), and they create values (we care about what we measure)... [C]hanging indicators can be one of the most powerful and at the same time one of the easiest ways of making system changes”.

Measurement is a powerful way to change behaviour and policy – provided measures are taken seriously and seen to be important. If governments saw their two priorities to be, for example, increasing well-being and decreasing resource use, then many of the aims of the Steady State Economy would come through, even without explicitly pushing for them. But, given what we know about the economic system and its current dependence on growth, it would be foolish to not keep a keen eye on measurement here too.

The other reason to prioritise changing measurement is opportunity. Many governments in France, the UK, Bhutan, and Latin America are starting to take alternative measurement seriously. They are doing this partly because of a critique of GDP, but also because of a recognition that their goals and priorities *are* changing. For example, whilst the sustainable development agenda has had its ups and downs, its goals are frequently cross-referenced in government policy. This shift in mindset has also coincided with some high level initiatives such as the OECD’s project on *Measuring the Progress of Societies* and the European Commission’s *Beyond GDP* initiative.

Lastly, it appears to be what people want. A UK poll found 81 per cent of people supported the idea that the Government’s prime objective should be the ‘greatest happiness’ rather than the ‘greatest wealth’. And an international survey found that three-quarters of respondents believed health, social, and environmental indicators were just as important as economic ones and should be used to measure progress.

Changing the way we measure progress is therefore both necessary and feasible.

### *Questions*

There are still many questions that must be answered with regards to the measurement framework. For example:

- How should economic activity be defined? Does it include informal as well as formal activity? What are the key measures in this domain?
- How much should health be considered part of well-being?
- Does a focus on the economic system, as the ‘third’ domain risk sidelining other important determinants of well-being? How should this risk be managed?
- What are the headline indicators in each domain?
- How do we deal with distribution?
- Can we measure resilience?

Meanwhile, there are of course questions as to how we achieve the framework:

- Who do we work with to generate support? Government? NGOs? The public?
- How much should it be tied to the goal of a Steady State Economy?

- What geographical level should we focus on?
- How firm should we be on our goals and how much compromise can we make?

### Information Resources

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Meadows, D (1998) *Indicators and information systems for sustainable development: a report to the Balatan Group*. The Sustainability Institute, Hartland, VT.

Michaelson J, Abdallah S, Steuer N, Thompson S & Marks N (2009) *National accounts of well-being: Bringing real wealth onto the balance sheet* (London: nef). Website: [www.nationalaccountsofwellbeing.org](http://www.nationalaccountsofwellbeing.org)

OECD – Measuring the Progress of Societies: [www.oecd.org/progress](http://www.oecd.org/progress)

Ryan R, Huta V & Deci E (2008) 'Living well: A self-determination theory perspective on Eudaimonia' *Journal of Happiness Studies* **9**:139-170.

Stiglitz J, Sen A & Fitoussi J (2009) *Commission on the Measurement of Economic Performance and Social Progress*. [www.stiglitz-sen-fitoussi.fr](http://www.stiglitz-sen-fitoussi.fr)

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