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# Wellbeing Matters

Tackling  
growth  
dependency

February 2020

**An Economy That Works**

Briefing Paper No.3

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Vague aspirations about green growth will be insufficient to meet vital climate or biodiversity targets. A wellbeing economy must start by adopting a ‘precautionary approach’ in which social stability does not depend on GDP growth.

## Summary

Economists have known for more than eighty years that the Gross Domestic Product (GDP) is not a good measure of social progress. Numerous attempts have been made to establish alternative indicators of progress. Recently, there have been several policy initiatives to articulate a different kind of economy in which the pursuit of wellbeing takes precedence over the pursuit of growth in GDP.

For the most part, UK policy still proceeds as though growth in GDP is the most important determinant of political and economic success. In the context of declining growth rates across the advanced economies and the need to tackle urgent challenges such as climate change, biodiversity loss and social inequality, this strategy is at best short-sighted and at worst disastrous both for societal wellbeing and for long-term sustainability.

This policy briefing highlights some alternatives to the conventional approach. It presents a three-fold strategy for moving beyond GDP by: changing the way we measure success; building a consistent policy framework for a ‘wellbeing economy’; and addressing the ‘growth dependency’ of the economy.

These strategies are exemplified through various initiatives from around the world which are described in the briefing. The APPG on Limits to Growth seeks to bring these developments to the attention of Parliament and to encourage similar initiatives for the UK. In particular, this briefing recommends:

- a determined effort to develop new measures of societal wellbeing and sustainable prosperity;
- the full integration of these measures into central and local government decision-making processes;
- the alignment of regulatory, fiscal and monetary policy with the aims of achieving a sustainable and inclusive wellbeing economy;
- the establishment of a formal inquiry into reducing the ‘growth dependency’ of the UK economy;
- the development of a long-term, precautionary ‘post-growth’ strategy for the UK.

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# The dilemma of growth

The Nobel prize-winning economist Joseph Stiglitz recently emphasised that there is something ‘fundamentally wrong’ with the way that we measure economic and social progress.<sup>1</sup>

The conventional measure of a nation’s economic success is the Gross Domestic Product (GDP) which counts up the economic value of the goods and services produced in the economy. But this measure says nothing about the distribution of income between the rich and the poor, nothing about the costs to the environment of producing and consuming those goods, and little about their ability to improve our long-term wellbeing.

Junk food, drugs, cigarettes, congested roads, traffic accidents, knife crime, alcoholism, gambling addiction, oil spills, carbon emissions: all of these things can contribute to growing GDP. None of them can be said to be good for us in the long run.

Economists—even the architects of the GDP—have been aware of these limitations for decades. In a report to the US Congress on the ‘Uses and Abuses of National Income Measurements’ in 1934, one of those architects—another Nobel laureate—Simon Kuznets, pointed out that the wellbeing of a nation can ‘scarcely be inferred from a measurement of national income’.<sup>2</sup>

Three decades later, the former US Attorney General, Robert F Kennedy summarised the limitations of GDP in the following way. It measures ‘neither our wit nor our courage, neither our wisdom nor our learning, neither our passion nor our devotion to the country,’ he said. GDP measures ‘everything, in short, except that which makes life worthwhile’.<sup>3</sup> In 2009, the French government published a substantial critique of GDP as a measure of either economic performance or social progress.<sup>4</sup> Even the Economist magazine now accepts that GDP is a poor measure of prosperity.<sup>5</sup>

Despite these warnings, an over-reliance on GDP prevented most economists and policymakers from seeing that unsustainable debt was leading to a global financial crisis in 2007/8. Equally, it stopped them understanding that the ‘recovery’ was benefiting mainly the rich, leading to rising inequality and leaving whole communities behind. At the same time, it has blinded them to the emerging crises of climate change and species loss that could undermine long-term economic security and social stability.<sup>6</sup>

Most of the time, policy solutions to the urgent problems of poverty, debt and the climate crisis tend to rely on the prescription to reinvigorate GDP growth and to make it more sustainable or more inclusive. The terms ‘green growth’ and ‘inclusive growth’ have become more and more common in business and policy debates to reflect this idea. Sometimes, commentators argue that making growth more sustainable or more inclusive will in itself lead to a new era of GDP growth.<sup>7</sup>

The success of green growth relies inherently on the idea that we can ‘decouple’ economic output as measured by GDP from its environmental impacts. Proponents of green growth call on evidence of ‘relative decoupling’—improvements in the carbon intensity of economic output, for instance, to support their case. The carbon intensity of the UK economy has fallen fairly consistently since the beginning of this century.<sup>8</sup>

But success in relative decoupling has not stopped global carbon emissions from rising. The rates of ‘absolute decoupling’, needed to achieve ‘green growth’ and meet our climate goals, far surpass anything that has been achieved historically.<sup>9</sup> This isn’t to suggest that decoupling wellbeing from material throughput is unnecessary. On the contrary, it’s vital if societies are to deliver a more sustainable prosperity—for people and for the planet. But vague aspirations about green growth will be insufficient to meet vital climate or biodiversity targets.

Crucially, the underlying economic fundamentals have changed in recent decades. Mainstream economists now talk openly of a ‘secular stagnation’ which is slowing down GDP growth rates, particularly in advanced economies.<sup>10</sup> This slowdown is not simply a consequence of the financial crisis. Since the 1960s the average growth rate across the OECD has more than halved. The ‘productivity puzzle’ that continues to haunt the UK, in particular, is symptomatic of this decline.<sup>11</sup>

These findings present politicians and policymakers with a profound dilemma. On the one hand, in our current economic model, jobs depend on economic growth, share prices and investment returns are linked to economic growth, tax revenues depend on economic growth. On the other hand, by setting GDP growth as our primary indicator of success, we are likely to end up making the wrong decisions. If our measures tell us everything is fine when it really isn’t, we will become complacent, said Stiglitz. ‘And it should be clear that, in spite of the increases in GDP, in spite of the 2008 crisis being well behind us, everything is *not* fine.’<sup>12</sup>

**In this briefing note, we propose three strategies in response to this dilemma.** The first is to integrate better indicators of prosperity into policy. The second is to use these new measures to move society away from an economy defined by the limitations of GDP and towards a ‘wellbeing economy’. The third is to address and reduce the ‘growth dependency’ of the economy. The aim of this briefing is to describe these three strategies in more detail.



Quality of life dashboards



Aggregate non-monetary index



Aggregate monetary index



Subjective wellbeing index

Figure 1  
Four main alternatives to GDP

## Measuring what matters

Developing new measures that better reflect sustainable prosperity is vital. Numerous initiatives have been aimed at replacing, revising or complementing GDP in recent decades. These attempts have ranged widely in their focus, with some aiming to account better for human wellbeing, whilst some aim to reflect more accurately the state of our natural environment. Others seek to capture the long-term aspects of economic activity more consistently.

An extensive literature<sup>13</sup> has explored both the limitations to GDP and the development of alternatives. Broadly speaking, we can divide these alternatives into four specific kinds of wellbeing indicators (Figure 1):

- multiple indicator sets (or dashboards);
- aggregated non-monetary indices;
- aggregated or adjusted monetary indices; and
- subjective or ‘personal’ wellbeing measures.<sup>14</sup>

Perhaps the most widely known ‘dashboard’ approach is the set of 17 Sustainable Development Goals, which are supported by 169 underlying

targets. Over the next decade, the SDGs aim to ‘stimulate action... in areas of critical importance for humanity and the planet’.<sup>15</sup> Another widely discussed ‘dashboard’ initiative is New Zealand’s ‘Living Standards Framework’ which incorporates 38 indicators, sitting across 12 domains of wellbeing, including housing, health and cultural identity as well as measures of environmental impact.<sup>16</sup> A recent report to the G20 calls for a similar approach.<sup>17</sup>

One of the problems of a dashboard approach is the need to evaluate trade-offs between progress in one indicator and a lack of progress in another. Partly in order to overcome this difficulty, numerous attempts have been made to develop aggregated non-monetised indicators which combine numerous indicators into a single over-arching number to reflect progress. The Human Development Index developed by the UN<sup>18</sup> and the Social Progress Index developed by Deloitte<sup>19</sup>—both based to some extent on the work of the Nobel prize-winning economist Amartya Sen—are examples of this kind of aggregated index.

An advantage of aggregation is that, in using a single number to represent national prosperity, it is possible to track overall progress across time and to compare this against progress as measured by GDP. A disadvantage is that the overall outcome of the index depends heavily on the choice of weights applied to each sub-element in the construction of the index. Monetised aggregate indicators—in which the weights of each sub-element are assigned monetary values—are an attempt to overcome this second shortcoming.

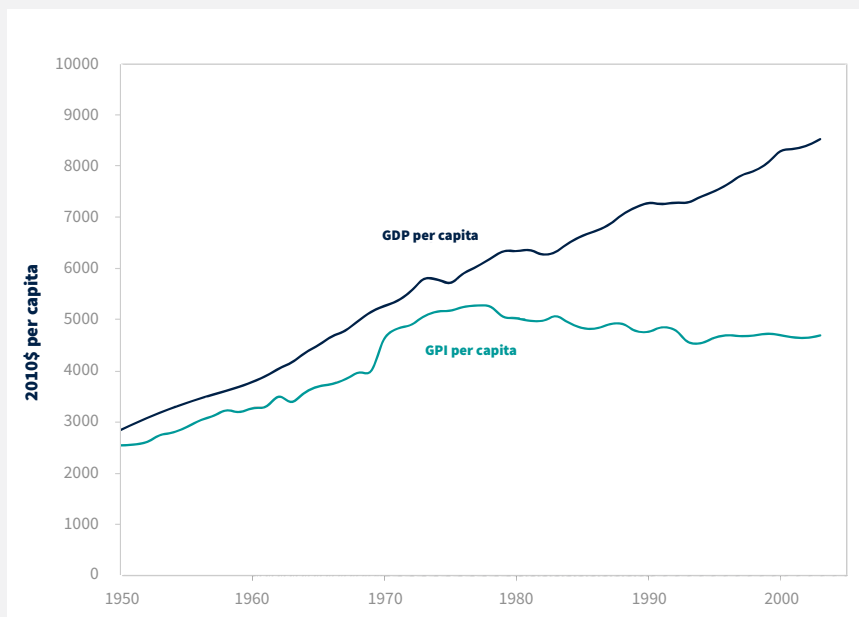


Figure 2  
Global GDP per capita vs GPI (Genuine Progress Indicator) per capita 1950 – 2005  
Source: Reproduced from data in Footnote 21.

The existence of indicators, on their own, doesn't guarantee success in delivering a wellbeing economy. A key determinant of success is the extent to which wellbeing indicators actually influence policy.

Examples of monetised aggregate indicators include the World Bank's Adjusted Net Savings index<sup>20</sup> and the Genuine Progress Indicator (GPI), developed initially by the ecological economist Herman Daly and subsequently applied in numerous countries worldwide.<sup>21</sup> One of the advantages of monetary indices such as the GPI is the ability to make direct comparisons with the GDP (Figure 2). A disadvantage is that it requires us to make monetary evaluations of every component in the index. Placing monetary values on nature or on certain aspects of social life is difficult and contentious.<sup>22</sup>

Measures of *personal wellbeing* aim to bypass the shortcomings of GDP and the problems associated with aggregation and monetary valuation.<sup>23</sup> Instead, proponents suggest that subjective measures of

life-satisfaction, happiness or fulfilment can offer useful guides to a nation's wellbeing and provide a more meaningful measure of social progress.<sup>24</sup> Personal wellbeing indicators are often incorporated into a dashboard approach. Again, comparisons between such measures and income measures can be insightful. As Figure 3 illustrates, this relationship is highly nonlinear.<sup>25</sup>

In short, there are numerous alternative indicators of social progress available to policymakers. Like the GDP, these indicators have different strengths and weaknesses. Some are better at portraying detailed statistical information. Others are better at telling clearly accessible stories about progress or lack of progress. Choosing the right indicators to guide policy is critical. But achieving a wellbeing economy must go beyond the question of measurement and begin to articulate a different kind of economy.

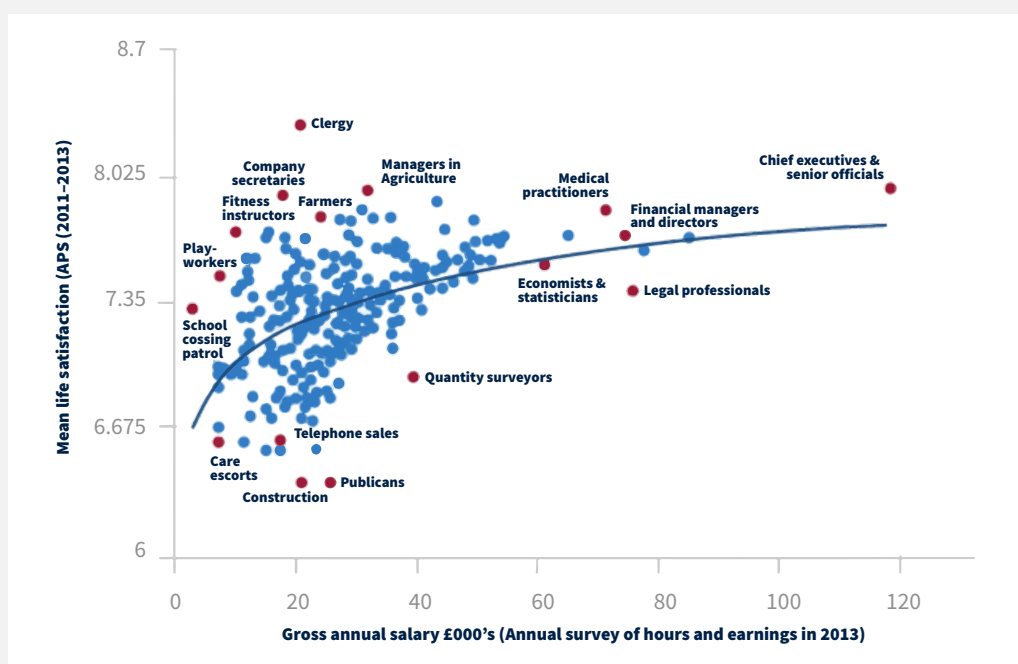


Figure 3  
**Life-satisfaction by occupation**  
Source: adapted from Cabinet Office 2014 (unpublished analysis), cited in Legatum Institute 2014; see Footnote 24

## Towards a wellbeing economy

There has been a recent surge of interest in the concept of a 'wellbeing economy'. Put simply, wellbeing is about 'how we are doing' as individuals, communities and as a nation. In the UK, the Office for National Statistics' (ONS) Measuring National Wellbeing Programme has identified ten broad dimensions which have been shown to matter to people in the country. These are: the natural environment, personal wellbeing, our relationships, health, what we do, where we live, personal finance, the economy, education and skills and governance.<sup>26</sup>

According to the ONS, personal wellbeing is 'a particularly important dimension' in this mix. It relates to people's own evaluations of their lives, as elicited through self-report surveys which evaluate how satisfied people are with their lives overall, what emotions they experience during a particular period and whether they feel they have meaning and purpose in their lives. In its latest bulletin of personal and economic wellbeing in the UK, the ONS reported a fall in both life-satisfaction and in the feeling that things done in life are worthwhile. Anxiety ratings in the UK are at 'an elevated level' with around 10.6 million people reporting high anxiety.<sup>27</sup>

The thrust of the wellbeing economy approach must be to align government policy as fully as possible with the goal of achieving societal wellbeing rather than with the narrow pursuit of GDP growth.

Clearly, these statistical measures play a useful role in understanding the mood of the country and the sense of social progress. But the wellbeing economy is not just about having a programme of measurement. Rather, it is informed by the idea that the pursuit of wellbeing (rather than say economic growth as measured by GDP) should be the aim of policy. The APPG on Wellbeing Economics has argued that the concept of wellbeing serves as a ‘valuable and pragmatic framing for making policy decisions and for setting a vision for the UK’.<sup>28</sup>

The Wellbeing Economy Alliance (WEAll) is a global collaboration of organisations, alliances, movements and individuals working together to change the economic system. WEAll aims to shift popular narratives about the purpose of the economy and promote the concept of an economy that delivers human and ecological wellbeing. Informed by this approach, in 2018, Scotland, Iceland and New Zealand formed the Wellbeing Governments (WEGo) initiative to exchange ideas on how to improve the lives of people and the ‘success of our countries’ overall.<sup>29</sup>

Last year, under the Finnish Presidency, the EU Council defined the ‘economy of wellbeing’ as ‘a policy orientation and governance approach which aims to put people and their wellbeing at the centre of policy and decision-making’.<sup>30</sup> According to the OECD, the ‘economy of wellbeing’ is an economy which:

- i. expands the opportunities available for improving people’s lives along the dimensions that matter to them most;
- ii. ensures that these opportunities translate into wellbeing outcomes for all segments of the population;
- iii. reduces inequalities; and
- iv. ensures environmental and social sustainability.<sup>31</sup>

Clearly, the pursuit of these aims depends on having appropriate indicators, through which progress towards the desired goals can be measured. But the existence of such indicators, on their own, doesn’t guarantee success in delivering a wellbeing economy. A key determinant of success is the extent to which wellbeing indicators actually influence policy. In a recent position paper, the APPG on Wellbeing Economics published a ‘spending review to increase wellbeing’ as a way of illustrating how government policy might work differently if it were viewed through a wellbeing lens.<sup>32</sup>

The paper drew inspiration from a similar process in New Zealand. In 2019, the NZ Treasury published its first Wellbeing Budget, in which spending allocations were informed by the Living Standards Framework—the dashboard of indicators highlighted in the previous section. An important element in the success of this process was that ownership of the Living Standards Framework was located inside the

NZ Treasury, where it impacted directly on the process of making spending decisions.<sup>33</sup>

Broadly speaking, we could say that the thrust of the wellbeing economy approach must be to align government policy as fully as possible with the goal of achieving societal wellbeing rather than with the narrow pursuit of GDP growth. This requires policy to pay attention not simply to the familiar macroeconomic ‘aggregates’ of output, income, investment and so on, but also the distribution of those variables across society, their impact on people’s quality of life and their implications for the planet.

The European Economic and Social Committee (EESC) recently adopted a position paper which articulates this idea in more detail. *The sustainable economy we need* calls for the EU to propose ‘a new vision of prosperity for people and planet based on the principles of environmental sustainability, the right to a decent life and the protection of social values’.<sup>34</sup>

The EESC’s ‘own initiative opinion’ outlines the need for fundamental changes in the nature of enterprise, the organisation of work, the role of investment and the structure of the money system in order to make the transition to a wellbeing economy. It also identifies the ways in which fiscal, regulatory and monetary alignment must be achieved if the transition to a carbon-neutral economy is to be effective. Specifically, the opinion proposes the adoption of a Wellbeing Budget, similar to the one adopted in New Zealand. It also calls for an end to perverse subsidies and for the alignment of all taxation, subsidies and spending commitments with the goal of achieving a just transition to a sustainable and inclusive wellbeing economy.<sup>35</sup>

## Tackling ‘growth dependency’

The twin aims—to measure what matters and to shift towards a wellbeing economy—are essential elements in moving beyond GDP growth as a model for social progress. Both avenues have a long pedigree in economic thought and have recently received a renewed attention. On their own, however, they are unlikely to be sufficient to change patterns of economic behaviour or to shift government policy. One more strategy is needed alongside these. It stems from a realisation that there are powerful forces locking us into patterns of unsustainable growth.

For example, the pursuit of growth is closely linked to the pursuit of labour productivity. As entrepreneurs seek to reduce their production costs, they tend to invest in labour saving technologies which reduce the number of people needed to produce a given level of

Knowing how best to ensure continued social wellbeing in a post-growth environment is essential, particularly when growth itself can no longer be taken for granted.

output. If these ‘efficiencies’ are reproduced across the economy, the level of unemployment tends to rise, unless the economy as a whole expands. In this model, the security of people’s jobs is inextricably linked to growth in GDP.<sup>36</sup>

With tax revenues primarily dependent on income, government’s own fiscal sustainability also tends to be locked into GDP growth. Health, social welfare, education and environmental protection measures become vulnerable to the same dynamic. Meanwhile investment returns and share prices tend to respond pro-cyclically, rising as the economy expands and declining as it retreats, leaving pensions, investments and the stability of the stock market vulnerable to fluctuations in the growth rate.

In short, the conventional economic system contains a complex set of ‘growth dependencies’ that tend to militate against changes to the over-arching model. The pursuit of growth in GDP becomes the default policy position, even when it is understood that the measure of GDP is flawed and the impact of continued economic growth is not sustainable.

For this reason, there have been several recent proposals to understand these ‘growth dependencies’ and find ways to mitigate them. For instance, the EESC opinion paper cited in the previous section argues that the transition to a wellbeing economy must start by adopting a ‘precautionary approach’ in which social stability does not depend on GDP growth.<sup>37</sup> A group of 238 academics across Europe recently penned an open letter calling on governments to ‘end the growth dependency’ of the European economy.<sup>38</sup> A petition on the same theme has so far received more than 90,000 signatures.<sup>39</sup> The European Parliament held its first Post-Growth Conference in September 2018 and will hold a second later this year.<sup>40</sup>

These calls to reduce growth dependency have drawn support from a recent report to the German government which articulated a precautionary ‘post-growth’ approach to achieving social wellbeing within planetary boundaries.<sup>41</sup> The report called for policies which are future-proofed against the possibility that economic growth might not be achievable in the same way that it has been historically, particularly if key environmental and social goals are to be met.

The report argues in favour of specific policies to reduce growth dependency. Shifts in taxation from labour to pollution (for example) reduce the costs of labour to employers, shift the incentives away from labour-saving capital investments and towards less-damaging patterns of production and consumption. Opportunities also exist for new models of pension provision, healthcare and social security which rely less on economic growth. Deeper changes to the monetary and fiscal rules under which government operates may also have some part to play in reducing growth dependency.<sup>42</sup>

Exploring and articulating these strategies clearly requires a degree of political will and a significant investment in ‘post-growth’ research and innovation. But in the light of the long-term slowdown in the growth rate already witnessed in advanced economies and the potential threats to economic growth from climate change, biodiversity loss and social disruption, such a strategy is fully consistent with economic prudence. Knowing how best to ensure continued social wellbeing in a post-growth environment is essential, particularly when growth itself can no longer be taken for granted.

## Recommendations

In summary, government and civil society initiatives across the world are beginning to recognise the limitations of GDP and attempting to articulate a clear and accessible vision for a different kind of economy in which the pursuit of wellbeing takes precedence over the pursuit of growth in GDP. The *APPG on Limits to Growth* seeks to bring these developments to the attention of Parliament and to encourage similar initiatives across the UK. In particular, this briefing recommends:

- a determined effort to develop new measures of societal wellbeing and sustainable prosperity;
- the full integration of these measures into central and local government decision-making processes;
- the alignment of regulatory, fiscal and monetary policy with the aims of achieving a sustainable and inclusive wellbeing economy;
- the establishment of a formal inquiry into reducing the ‘growth dependency’ of the UK economy;
- the development of a long-term, precautionary ‘post-growth’ strategy for the UK.

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## Notes

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## An Economy That Works

Ten years after the financial crisis, sluggish growth, faltering labour productivity and persistent inequalities are creating huge uncertainties for the future of advanced economies such as the UK. Under these conditions, it is challenging to meet the investment needs associated with improving people's health and wellbeing or to honour our obligations under the Paris Agreement on climate change. The implications for social and political instability are profound. Is a return to high levels of GDP growth the only way to meet these combined challenges? Is such a return even possible? A series of briefing papers from the All-Party Parliamentary Group on the Limits to Growth aims to explore these questions and to create the space for a vital conversation aimed at building *An Economy That Works*—for everyone.



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