Policy Implications of the Sarkozy Report
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The Sarkozy Report (Stiglitz, Sen and Fitoussi, 2009) is largely the result of French President Nicholas Sarkozy's dissatisfaction with current measures of well-being, most notably GDP. In February 2008 he asked three economists – Joseph Stiglitz, Amartya Sen (both Nobel prize winners), and Jean-Paul Fitoussi – to create a Commission to consider better ways of measuring social progress. The resulting twenty-five member group included twenty-two scholars with advanced degrees in economics, most earned in the economic epoch of behaviorism. Of the other three, two are leading contributors to behavioral economics, and one, a pioneer in the study of social capital. Eight members were born in the United States, six in France, and three in the UK; four of the remainer are from the developing world. Only two members are female. The place-of-birth and gender distributions are probably reasonably representative of the composition of the economics profession at the time of the Committee members' professional training.

The Report represents a remarkable breakthrough in economist's thinking about the directions in which economic measurement needs to go. It is built around a conceptual distinction among four types of measures:

1. production (GDP)
2. economic well-being (material living level)

3. overall well-being (of which item 2, "economic", is one of eight components)
4. well being of current vs. future generations ("sustainability")

In the Report, item 1, production, consists of a small number of pages rehashing long-standing problems of GDP measurement, and ends up with no new substantive recommendations. Item 2, economic well-being, deals with ways that the national economic accounts might be modified "to shift emphasis from measuring economic production to … people's [economic] well-being" (p.12). The Sarkozy Commission advocates focusing specifically on *household* income, consumption, and wealth, both the per capita amount and distribution. Item 4, well-being of current versus future generations, focuses on the thorny issue of whether the current level of well-being can be maintained for future generations. Though accounting for a fair number of pages, the Report ventures only two fairly muted recommendations, opting for multiple indicators and rejecting extant aggregative indices of sustainability. All in all, items 1,2 and 4, offer little that is new as far as substantive recommendations are concerned. What *is* new is item 3, overall well-being, and the recommendations relating thereto – item 3, in fact, is the Report's main contribution to economic measurement.

The Commission identifies eight dimensions that make up *overall* well-being: economic well-being, health, education, work, political voice, personal relationships, environment, and security.

In the Commission's view, "[a]ll these dimensions shape people's well-being, and yet many of them are missed by conventional income measures" (p.15). To remedy this situation the Commission offers several recommendations, and it is in this connection that the Commission's radical view (for economists) comes to the fore. After advocating the official collection of a variety of so-called objective indicators on each of the eight dimensions of well-being noted above, the Commission states:

> Research has shown that it is possible to collect meaningful and reliable data on subjective as well as objective well-being. Subjective well-being encompasses different aspects (cognitive evaluations of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and worry): each of them should be measured separately to derive a more comprehensive appreciation of people's lives… [T]he types of questions that have proved their value within small-scale and unofficial surveys should be included in larger-scale surveys undertaken by official statistical offices.

That more than twenty distinguished economists, five of them Nobel prize winners, trained in the economic epoch of behaviorism, should advocate the use of *subjective* measures such as self reports of happiness and life satisfaction to design policies and assess social progress comes close to economic heresy. For decades, economists have prided themselves on only paying attention to what people do, not what they say. Of course, the Committee does not advocate the exclusive use of subjective measures, but even to admit subjective measures to the hallowed company of so-called objective indicators like GDP or the inflation rate is a sharp break with a disciplinary paradigm that has dominated economists' thinking for decades, and continues to do so in the current pejorative distinction between "hard" and "soft" measures. Because of the revolutionary nature of this recommendation, I focus on it in what follows.

The Report does not mince words in its rejection of GDP and GNP as measures of well-being, even if modified to take better account of such things as quality change and the output of services. Thus, in the Executive Summary, the Report states: "To focus specifically on the enhancement of inanimate objects of convenience (for example in the GNP or GDP which have been the focus of a myriad of economic studies of progress), could be ultimately justified – to the extent it could be – only through what these objects do to the human lives they can directly or indirectly influence" (p. 8). The priority accorded here in putting "human lives" over "inanimate objects" is noteworthy. Just suppose, for example, that our judgment of recovery from the current recession put "human lives" first. Surely we would then focus on the unemployment rate and similar coincident labor-market-related indicators in assessing the state of recovery, rather than leading indicators, such as output. And perhaps, then, the public would not so sneeringly dismiss economists' judgments of economic recovery!

Consider, too, the implications for macro-economic policy if "human lives" are accorded priority. I think most would agree that macro-economic policy as currently conducted by monetary authorities throughout the developed world is oriented primarily toward output growth and the prevention of inflation, with unemployment given minimal attention. A major study by Rafael DiTella, Robert MacCulloch, and Andrew Oswald, however, points to the need to give unemployment much higher priority. In assessing the trade-off between the inflation and unemployment rates in terms of the effect on subjective well-being, they conclude that a one point increase in the unemployment rate has a greater negative effect on SWB than a one point increase in the inflation rate. This is in contrast to the arbitrary one-to-one tradeoff in the so-called "misery index". Even the "misery index" overstates the tradeoff actually used by the monetary authorities, for whom the inflation rate clearly takes priority over the unemployment rate.

Consider also the implications for policies in the area of economic growth if "human lives" are put ahead of "inanimate objects of convenience". The World Bank Development Report (2009) is devoted to acclaiming the benefits of urbanization, and spends three of nine chapters on policy proposals to promote urbanization in developing countries. The benefits of urbanization identified in the Report are first and foremost income gains, as workers shift from lower-paying rural work to higher-paying urban jobs; in the language of the Sarkozy Report, the gains are an increase in "inanimate objects of convenience." Under the heading "What this [World Bank] Report is *not* about" (World Bank 2009, p.34, italics added), the Report explicitly sets aside consideration of social and environmental effects of urbanization, effects that clearly impact "human lives" and might well be negative. Indeed, one wonders how meaningful policies can be formulated if such effects are neglected. If the Sarkozy Commission's recommendations were in play, then social and environmental effects would require attention along with income gains, and the net result might well be a quite different set of policy proposals than those put forth by the World Bank.

Or take the 2008 World Bank Report that hails as "success stories" and models for the developing world the exceptional growth rates of GDP per capita achieved in recent decades by countries such as China and South Korea (Commission on Growth and Development 2008, pp. 19-20). China's recent growth rate implies a doubling of real per capita income in less than 10 years; South Korea's, in 13 years. With the per capita amount of "inanimate objects of convenience" multiplying so rapidly in a mere fraction of a lifetime, one might think many of the people in these countries would be so happy they'd be dancing in the streets. Yet China shows a mild (not statistically significant) decline in life satisfaction, in surveys conducted by three different statistical organizations. South Korea shows a mild (not statistically significant) increase, but all of the increase is due to the low value reported in the initial life satisfaction survey, one that was conducted a few months after the assassination of the country's president in 1980. Thereafter, in four surveys from 1990 to 2005, a period when GDP per capita continued to grow rapidly, averaging 5 percent per year, life satisfaction declines slightly (though the decline is not statistically significant). With GDP increasing at such extraordinary rates in these two countries, it seems remarkable to say the least, that there are *no* surveys that register a dramatic improvement in well-being of the sort that many economists would expect to see.

The life satisfaction patterns for China and South Korea, indicating no positive impact on SWB of rapid economic growth, are representative of experience worldwide. Figure 1 plots for 37 countries scattered across 5 continents the annual rate of change in life satisfaction (on the y-axis) against the annual growth rate of GDP per capita (on the x-axis). If more rapid growth leads to a greater improvement in life satisfaction, the slope of the OLS regression line should be significantly positive. In fact it is slightly negative and not significantly different from zero.

The 37 countries in Figure 1 consist of 17 developed countries, 11 transition countries of Eastern Europe, and 9 developing countries. If we re-do Figure 1 for each group of countries separately, we find a result like that for all 37 countries combined – a regression line with a slope not significantly different from zero, and slightly negatively inclined for two of the three country groups.

A newer and different data set, the Latinobarometer, yields results like that of Figure 1. In the growth experience of 17 Latin American countries from 1994 to 2006, the relationship between the average annual change in financial satisfaction and the annual growth rate of GDP per capita is nil. (Financial satisfaction is used instead of life satisfaction because data for the latter are not comparable over time). If a higher rate of economic growth raises subjective well-being more rapidly, it is hard to find evidence of it in the experience of China and South Korea, 17 Latin American countries, and in the richer, poorer, and transition countries studied here.

Where does this leave us? Could it be that the trend in well-being of “human lives” is something other than that in “inanimate objects of convenience”? This seems to be the implication of these data. And if subjective measures are telling us more about human lives than output, it is subjective data that need to be studied, as the Sarkozy Report proposes, and indeed, as the British government is now starting to do officially. To judge from what has so far been done in the economics of happiness, this will be a new world for economists – a world that joins psychology and economics, a world filled with fascinating research questions, and, quite likely, much different policy initiatives than those that currently prevail worldwide.

References

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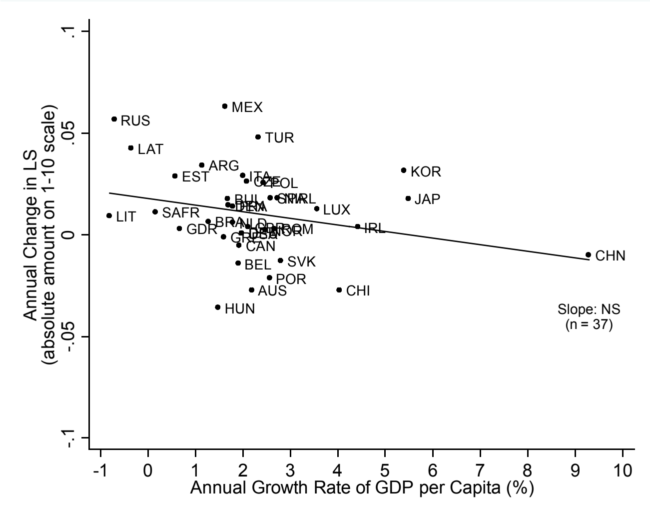
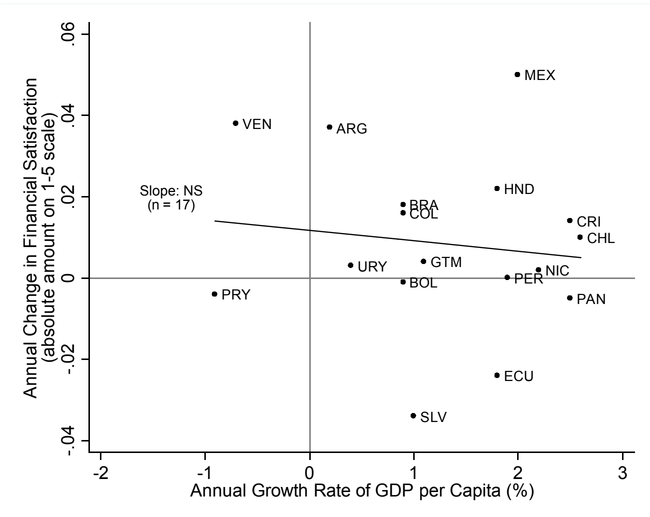
Figures

Figure 1. Average Annual Rate of Change in Life Satisfaction and in GDP per Capita (periods of 12-34 years; mn=22)



The fitted OLS regression is: y= –0.003 x + 0.018 (adj R^2=0.069); t-stats in parentheses. (-1.61) (3.07)

Figure 2. Average Annual Rate of Change in Financial Satisfaction and in GDP per Capita, 17 Latin American countries, 1994-2006



The fitted OLS regression is: y = -.255 x + 0.12 (adj R^2=-0.05); t-stats in parentheses. (0.5) (1.42)