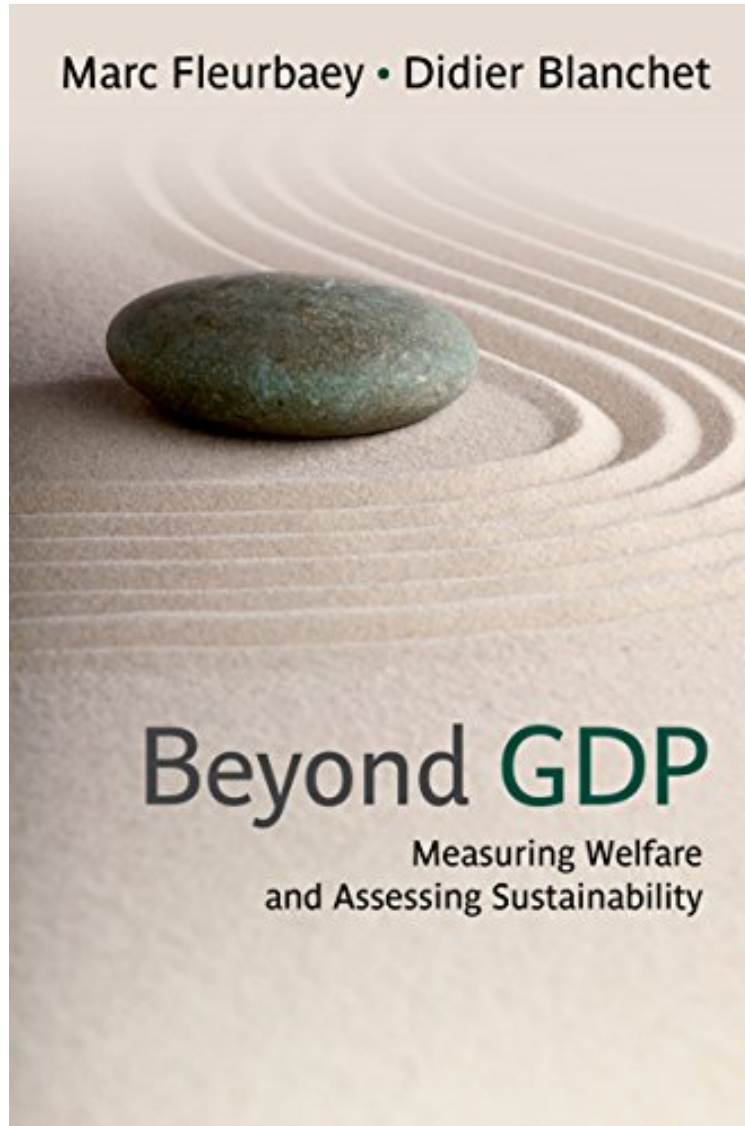


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## Beyond GDP: Measuring Welfare and Assessing Sustainability

*Marc Fleurbaey, Didier Blanchet*

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**Marc Fleurbaey, Didier Blanchet : Beyond GDP: Measuring Welfare and Assessing Sustainability** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Beyond GDP: Measuring Welfare and Assessing Sustainability:

0 of 0 people found the following review helpful. This is easily one of the most interesting books written on human ...By Eli F. This is easily one of the most interesting books written on human wellbeing and welfare written in recent years. This is a must for any researcher working on sustainability or welfare economics. This book is written in a PhD level, and it is helpful to have a grounding in welfare theory. However, it also addresses subjective and objective

wellbeing measures and it investigates satisfaction indices. So, is relevant to all social sciences interested in human wellbeing. The authors are very fair handed in their treatment of different ideas.<sup>2</sup> of 2 people found the following review helpful. Rigorous critique of GDP, in the neoclassical idiom

By A. J. Sutter

The wisdom in the 1970s was that only a staunch anti-Communist like Nixon could ever have persuaded US anti-Communists to recognize Red China, and a few years later it took an ex-terrorist and an ex-general to make peace between Israel and Egypt. The premise of this book seems to be that only neoclassical economists could ever persuade other neoclassicals that GDP isn't an adequate measure of social well-being. Both the chattering and the political classes seem to have accepted this idea in recent years, but, to use a word of which Marc Fleurbaey and Didier Blanchot (FB) are fond, this book demonstrates that proposition rigorously. Not everything else in the book is so convincing, however.<sup>1</sup> This is not a book for the casual reader. If you read Tim Jackson's "Prosperity without Growth" or the Stiglitz-Sen-Fitoussi report about alternative indicators (known in the US as "Mismeasuring Our Lives"), be advised that most of this book is for a very different audience -- namely, those who aren't thrown for a loop by integral calculus and references to quasi-concave indifference curves. The Introduction declares that the book is accessible for undergrad economics majors and even those who simply have a year of calculus, but Chapter 2 pulls in Hamiltonians from dynamic optimization theory, which usually is a more advanced topic. I'd advise you to decline the authors' invitation to skip some chapters, unless you're already conversant with most of the sources in their bibliography -- I read it straight through, and found there were many references to the supposedly "skippable" chapters. FB do conclude each chapter with a summary in more straightforward prose, but this is both a blessing and a curse, as I will describe below, and might not justify the purchase of the book for readers impatient with a couple of hundred pages of mathematics. Finally, one more warning to fans of Tim Jackson or of "de-growth": please note that while this book criticizes the use of GDP as an indicator of well-being, it is *not* a critique of economic growth or even of GDP as an indicator of growth. The book is perhaps most effective when FB show that orthodox economic theory doesn't support any purported connection between GDP and well-being (Chap. 3). This surprising result is probably 180 degrees opposite from most readers' assumptions about what the theory maintains, so the fact that it pops out from an argument based on neoclassical techniques and assumptions is especially powerful. There are also some very interesting negative critiques of composite indicators such as the Human Development Index (Chap. 1), of attempts to "correct" GDP by adding or subtracting certain categories of GDP-like data (Chaps. 2 and 3), and of politicians' current fad for subjective well-being a/k/a "happiness" data (Chap. 5). In that context, FB make the interesting point that although economists analyze consumer purchases on the basis of maximization of "utility," or "satisfaction" of preferences, such an analysis doesn't carry over well to life as a whole. People don't want just to feel satisfied in their lives, they want to obtain the actual things or circumstances that make them feel satisfied. (FB cite Brian Barry's analogy that if a football fan merely wanted to *feel* satisfied per se, he would support whatever team was most likely to win, instead of wanting his favorite team actually to win (@171).) I'm not yet convinced that this principle applies as universally as FB claim, but at least it was the first time I'd heard this piquant idea.<sup>2</sup> Eventually, though, I found the book's grounding in mathematical models to be a two-edged sword. While the models might be effective for persuading people who spend their professional lives thinking about maximizations and complete transitive orderings, a reader not of the neoclassical faith might get frustrated that they're far removed from practical reality and seem designed to make simple things appear complicated. Once FB get around to expressing their criticisms in plain English, they often turn out to be things that other critics have earlier noted without need of tortuous math. Such as that if you ask a lot of people to grade their overall happiness with their lives on a scale of 0 to 10, it's hard to compare their answers because not everyone might think of the scale in the same way (see @201-202). Or that if you try to put prices on the different dimensions of peoples' lives, it would be too simplistic to assume that all individuals would value each such dimension the same way (@114). Or that it's hard to assess sustainability "without a prior consensus about what we want to sustain" (@75). This aspect of the book reminded me of an article I read a few years ago (2003, to be exact) in Harvard Business Review, in which a couple of B-school profs suggested that you sell more stuff if you use the word "SALE" and end your prices in a '9' -- principles already known to retailers the world over for decades or centuries or millennia. Economists aside, are there really people who won't believe such evident points until they hear them from the mouths of Ph.D.s?<sup>3</sup> FB ultimately argue quite reasonably in favor of using several indicators, not just one. However, they urge that one of these should be based on "equivalent income," sometimes called a "money-metric utility function," for which they make an affirmative argument in Chapter 4. I didn't find this affirmative argument at all convincing, and in fact found parts of it disturbing. Here's the gist of the argument: One of the problems with "utility" is that it's psychological, and that it's therefore very difficult to compare from person to person, or to aggregate over many people. So consider a framework "in which an individual  $i$  consumes a bundle  $(x_i, y_i)$  made of market commodities  $x_i$  and other nonmarketed dimensions  $y_i$  (such as public goods and personal characteristics and functionalities). The money-metric utility [a term that FB use "interchangeably" with "equivalent income," @120] is then equal to the expenditure in  $x_i$  needed to reach the utility level  $u_i(x_i, y_i)$  under a reference price vector  $p$  and with reference  $y_i$ . ... The equivalent income for  $i$  is the level of income that, combined with reference parameters for the nonincome dimensions of life, would give  $i$  the same satisfaction as the current situation. If  $i$  is indifferent between his current situation and an income of

120 combined with the reference  $y_i$ , his equivalent income is 120." (@120-121; I have had to modify some diacritical marks.) The idea being that it's easy to compare money to money, and to add it up. In simpler language, equivalent incomes are "incomes leading to the same utility level as the one currently attained but for given reference values of nonmarket aspects -- health, leisure, social interactions, environment, and so on. This concept provides an indirect way to assess who is -- more or less advantaged in a society ... without requiring more than the choice of a reference bundle for the nontraded goods and some knowledge of how people are ready to trade these goods for monetary income, that is, only some information on elasticities of substitution of the kind we measure when we assess willingness-to-pay for certain nonmarket goods." (@243). FB then give a more concrete example, of two countries A and B, where the first has many natural amenities, while the second has a harsh environment but a population that engages in commerce a lot and so has higher incomes. Then "[l]et us assume that the natural conditions of country A are taken as the reference. The approach consists in asking how much of their monetary income inhabitants of country B would be willing to abandon to benefit from the natural amenities of country A." (@243-244.) FB like this approach because it "appears as the only possible methodology if one seeks a method of measurement of well-being that respects individual preferences while considering that there are certain situations of dominance in which comparisons can be made in terms of bundles" (@158). In contrast to subjective well-being and the Sen-Nussbaum "Capabilities Approach," it is neither "inherently paternalist [n]or perfectionist" (@245), being instead consistent with "the classical principle, in welfare economics, of respecting preferences at the individual level" (cf. @226). A key concept here is a procedure known as "willingness-to-pay" (WTP). This is often used by environmental economists to find out how much you'd pay to preserve rain forests or prevent pandas from becoming extinct, and health care economists to value a certain quality of life. One problem with FB's reliance on WTP is that they don't specify how it would be possible to accumulate sufficient WTP data. Even worse, they never consider any criticisms of the probity of such data. WTP data are notoriously shaky when they are based on hypothetical choices (see, e.g. criticisms by authors such as Douglas Kysar, Frank Ackerman, Steven Kelman and other critics of cost-benefit analysis). As FB themselves say (while criticizing happiness data in Chap. 5), "people are not very good at predicting their future feelings" (@165). Such data, even if they could be collected, seem unreliable right off the bat. A further complication is that FB seem to be using WTP interchangeably with willingness-to-accept (WTA), i.e., how much money I would accept to \*give up\* something I enjoy now. For example, by choosing balmy country A as a reference, the problem posed to country B residents is WTP. But what if the question had been asked of Country A residents, using harsh country B as a reference? Presumably many of them would need to be paid to give up their current life, i.e. a WTA issue. In fact, most of FB's definitions of equivalent income (@ 120-121 and @243, 1st full paragraph) are phrased in terms of WTA, not WTP: e.g. "incomes leading to the same utility level \*\*as the one currently attained\*\* but for given reference values of nonmarket aspects" (emphasis added). As Kysar and others have pointed out, there are major cognitive and ethical differences between WTP and WTA assessments -- with WTA assessments being notoriously less accurate, to boot. Nothing in this book suggests such difficulties. What is disturbing about this? It is the supposition that, as one of my creepier law school professors liked to smugly remind us, "Every man has his price." For everything. E.g., who is the "reference spouse" I'm supposed to judge my current one against, and how can I translate the difference into money? (Readers who are eager to get divorced might have a ready answer, but many others will not, I hope.) Suppose you have two children: how much would you have to get paid to give up one of them? Both of them? How much would I accept to give up having cats? How much would I accept to give up my personal characteristic or functioning of fluency in English? How much would I have to be paid to live in New York City again? (Finally, an easy question: no amount of money would be enough, period.) Capping this all off is a more technical problem: implicit in the reliability of the equivalent income method is that individuals must have transitively ordered preferences. This is the assumption that if I like  $X > Y$  and  $Y > Z$ , I must like  $X > Z$  and would never choose  $Z > X$ . However, while perhaps most individuals can say this about a few commodities (e.g., choices from among 3 ice cream flavors -- though some days even this can trip me up), this is certainly false for many people, and perhaps false for everyone, when a wider range of preferences are considered -- and especially preferences about those nonmarket aspects of life that FB denote by  $y_i$  in several chapters of the book. For all of these reasons, FB's optimistic confidence in "WTP" comes off as both inhuman and naive.<sup>4</sup> To close, a bigger-picture comment: I found it troubling that, while indicators are supposed to guide political choices, there was no acknowledgement of the role of democratic politics or of collective interests in choosing policies. The problem of policy was assimilated to consumer choice, or to government hand-out -- see, e.g., where the "situation of an individual" is described by  $\{(x(y,e), y, e) \in E\}$ , where  $y$  corresponds to "history and nature (circumstances),"  $e$  to "the individual (personal responsibility), and  $x$  to "social policy (via transfers)" (Section 6.2.2). It's deemed a drawback that in the Capabilities Approach "the weights for different functionings and capabilities have to be decided collectively by the concerned population rather than adjusted to every individual or subgroup of the population;" this results from the wrong way of constructing interpersonal comparisons, whereas an "understanding" of the right way preserves individual diversity (@230-231). This point of view is indeed consistent with the "classical" view of neoclassical welfare economics - but the relegation of democratic deliberation to "the selection of dimensions and the choice of weights" for the indicator (@235) seems

dangerously technocratic. Consider some of the big issues we face today: wars, climate change, immigration, social justice for minority groups -- are these all "consumer choices" for most citizens? As Kent Greenfield nicely puts it in a recent book ("The Myth of Choice"), should we allow big decisions about important things to be chopped up into little decisions about money? Is a discourse based on our own self-interested preferences really the best way to frame all of these issues? And should the expression of those preferences be the limit of our participation in deciding them? The vision of civic life that emerges from this book seems at times to be of a state in which citizens are merely consumers of state services, with a mandarin bureaucracy that runs public life by numbers after first finding out from us how much money we'd need to jettison the various things that matter most to us in our lives. (I'm caricaturing, but not wildly.) Despite the serious reservations described above, I have great respect for the obviously Herculean intellectual effort that went into making this book, for which reason I don't subtract more than a star. In addition, FB have produced a work that is certainly more readable than most books that rely so heavily on mathematics. Hats off to OUP for including a full bibliography, though I wish they had also chosen an ink that would have been more impervious to the beads of water that fell off my iced coffees at the cafe where I read this. No doubt this will be a work of reference for technocrats and welfare economists; and a demanding but provocative read for the brave among the rest of us.

0 of 0 people found the following review helpful. Great book but not for your average reader

By David Mills

This book requires the equivalent of an undergraduate degree in economics to fully appreciate, the more so since many important concepts are introduced only by algebraic definitions. The book would be more useful to the general reader, perhaps even to the professional, if these important concepts were introduced and discussed in words as well.

Other notes: In general, argues in favor of a dashboard approach for items which cannot be combined, but does suggest using "equivalent income" (chapter 4) as a way to add in non-monetary factors.

p. 4: "The necessity of correcting or complementing GDP had no reason to strongly emerge before it had its dominant position" following WWII. Suggests NOT trying to combine sustainability and present economic health - like adding together present mph and amount of gasoline in tank. (p. 14) If one combines income and years of life (expectancy) one invariably equates years of life to a given amount of money. Says that GDP also does this because it combines consumption and investment. (p. 18)

"Equivalent Income" to be discussed in Chap 4, "When individuals differ among non-income dimensions, reference levels for these dimensions are chosen, and equivalent incomes (or consumptions) are computed; that is, the monetary amounts that, associated with the reference conditions, would render people indifferent to their current condition. These amounts can be evaluated by different methods: marginal willingness to pay as indicated by market prices (e.g., using wages as a way to value leisure) ..."

Sustainability: Chap 2. "Ecological footprint" completely ignores opportunities offered by technological progress. Offers "willingness to pay" metric; but important to use same reference price bundle throughout! See [...] Happiness indicator. Fig 5.1 shows measured "happiness" is constant in US while real income rose from \$21,000 to \$37,000 from 1972-2004. Called "Easterlin Paradox" Is due to the problem of defining happiness (which is unbounded) by a bounded scale-- known as the "calibration problem."

Two great examples, an man from India and one from US who both rated a 10 (highest) as (p. 182): "I want a son and a piece of land ..(so I am) not working on land owned by other people. I would like to construct a house of my own and have a cow for milk and ghee. I would also like to buy some better clothing for my wife.." "I would like a reasonable income to maintain a house, have a new car, and send my four children to private schools." (p. 201) In conclusion " ..the calibration problem makes it impossible to use such data directly. Doing so is likely to betray people's actual concerns with the contents of their life."

In spite of recurrent criticism and an impressive production of alternative indicators by scholars and NGOs, GDP remains the central indicator of countries' success. This book revisits the foundations of indicators of social welfare, and critically examines the four main alternatives to GDP that have been proposed: composite indicators, subjective well-being indexes, capabilities (the underlying philosophy of the Human Development Index), and equivalent incomes. Its provocative thesis is that the problem with GDP is not that it uses a monetary metric but that it focuses on a narrow set of aspects of individual lives. It is actually possible to build an alternative, more comprehensive, monetary indicator that takes income as its first benchmark and adds or subtracts corrections that represent the benefit or cost of non-market aspects of individual lives. Such a measure can respect the values and preferences of the people and give as much weight as they do to the non-market dimensions. A further provocative idea is that, in contrast, most of the currently available alternative indicators, including subjective well-being indexes, are not as respectful of people's values because, like GDP, they are too narrow and give specific weights to the various dimensions of life in a more uniform way, without taking account of the diversity of views on life in the population. The popular attraction that such alternative indicators derive from being non-monetary is therefore based on equivocation. Moreover, it is argued in this book that "greening" GDP and relative indicators is not the proper way to incorporate sustainability concerns. Sustainability involves predicting possible future paths, therefore different indicators than those assessing the current situation. While various indicators have been popular (adjusted net savings, ecological footprint), none of them involves the necessary forecasting effort that a proper evaluation of possible futures requires.

"Fleurbaey and Blanchet have written a brilliant and deeply-learned survey of the ways to measure a society's condition. Among its many contributions, *Beyond GDP* offers a powerful defense of equivalent incomes as the core of a new approach--an approach that respects the diversity of individual preferences and the multiplicity of sources of human well-being."--Matthew Adler, Richard A. Horvitz Professor of Law and Professor of Philosophy and Public Policy, Duke University

"Dissatisfaction with GDP has grown from a trickle to a torrent among policymakers, yet there has been no comprehensive treatment to which economists could turn to explore the technical and ethical underpinnings of measurement. Fleurbaey and Blanchet have filled the gap with this serious, readable, and sophisticated text. *Beyond GDP* will be essential reading for all economists interested in how the subject can incorporate new lessons from philosophy and psychology. It is a milestone on the road to a new welfare economics."--Angus Deaton, Dwight D Eisenhower Professor of International Affairs, Professor of Economics and International Affairs, Woodrow Wilson School, Princeton University

"The development of measures of social progress and well-being has been booming in recent decades, both in the academic world and in policy circles. In *Beyond GDP*, Fleurbaey and Blanchet discuss critically the most important arguments for various new approaches and measures in an analysis that is both theoretically sophisticated and practically relevant. A must-read for everyone (both academics and policy-makers) who is interested in moving 'beyond GDP' with a better awareness of the underlying theoretical challenges."--Erik Schokkaert, Department of Economics, University of Leuven and CORE, Universiteacut;e; catholique de Louvain

"In the burgeoning literature on alternative measures for GDP, *Beyond GDP* constitutes a milestone. Fleurbaey and Blanchet provide a consistent and thorough discussion of different approaches to the measurement of current social performance and future sustainability. Since their approach is robustly rooted in the development of economic theory over the last 60 years, it offers an integrated theoretical perspective on various branches of literature on GDP, which are often treated in a disparate way. Simultaneously, their critical discussion of 'fixed points' in economic theory marks a breakthrough with considerable consequences. The combination of theoretical rigor and pragmatic final conclusions is refreshing and stimulating for all those involved in the endeavor to go 'beyond GDP.'"--Frank Vandebroucke, Professor, KULeuven; former Minister in the Belgian Government

"There have been a plethora of alternative indicators of social progress proposed as alternatives to GDP in the last four decades. Fleurbaey and Blanchet identify four approaches to constructing such measures and examine and critically evaluate the theoretical foundations for each approach in detail. The authors cogently argue for an equivalent income approach that has the virtue of being a monetary indicator that respects the diversity of preferences and values in society. This masterful volume is essential reading for both scholars and practitioners with interests in these issues."--John A. Weymark, Gertrude Conaway Vanderbilt Professor of Economics, Vanderbilt University

"It has been widely accepted that GDP is neither a good measure of well-being nor sustainability. But any alternative metric suffers from various diseases, sometimes similar to those of the GDP. A new book by Marc Fleurbaey and Didier Blanchet brings new light to this issue; a rigorous and clear analytical treatment of the topic. While the authors are dedicated economists and philosophers, most parts are accessible and worth reading for those coming from a more ecologically-minded perspective. Even if one disagrees with their carefully argued conclusions, this book still constitutes essential reading, sharpening the argument on what is welfare and how to measure it. This book is essential and extremely pleasant reading for anyone interested in the substance of the "Beyond GDP" question. Even those who disagree with their arguments in favor of the equivalent-income approach will discover a wealth of material to sharpen their minds and to find intellectual satisfaction."--Ecological Economics

"The authors report on their quest for good indicators of social progress. In the book they delve into the ethical considerations and the economic theory behind 4 alternatives. LSE of Books recommends this book to policy makers and scholars of all social sciences, psychology, ecology and philosophy that are dissatisfied with GDP as a measure of social well-being. Using insights from philosophy, welfare economics and psychology, *Beyond GDP* is structured around examining the pros and cons of four different approaches to measure social well-being, each with different degrees of paternalism and perfectionism. Get this book if you want to get up to speed on how to go beyond GDP in the quest for a better indicator of national well-being. But be prepared for a demanding read, as you'll need a knowledge of microeconomics and growth theory beyond the undergraduate level."--LSE of Books

"There are many gems strewn throughout the book, including a superb discourse on index numbers, a refutation of egalitarianism as a criterion for social happiness, and a perceptive discussion of the drawbacks of discounting future social welfare... all told, this work will undoubtedly interest philosophers, psychologists, and ethicists, but above all economists, who are here shown the powers of deductive reasoning, the merits of scholarly diffidence, and the dictum that economics 'is a method rather than a doctrine' (Keynes, 1922)." --Journal of Regional Science

About the Author Marc Fleurbaey is the Robert E. Kuenne Professor of Economics and Humanistic Studies, Professor of Public Affairs and the Uni Marc Fleurbaey is Robert E. Kuenne Professor of Economics and Humanistic Studies and Professor of Public Affairs for the University Center for Human Values at Princeton University. Previously, he was Research Director at Centre National de la Recherche Scientifique, Professor of Economics at Universiteacut;e; de Pau et des Pays de l'Adour and Universiteacut;e; de Cergy-Pontoise, as well as a visiting fellow at the London School of Economics and the University of Oxford. He was formerly the editor of Economics and Philosophy and is currently the coordinating editor of Social Choice and Welfare. Didier Blanchet

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