GDP vs. Wellbeing: Measuring a Policy

Introduction

Policymaking may seem like a daunting task; however, measuring the effectiveness of a policy often proves more complicated. With many varying opinions on how best to evaluate policy, policymakers have turned to economists to create a quantitative measure that attempts to eliminate subjectivity. The result: utilizing gross domestic product (GDP) as the standard method of evaluation. By measuring changes in overall GDP to determine a quantifiable policy effect, policymakers are placing an emphasis on using output, which can be correlated with productivity, to establish a baseline for evaluation. GDP may provide a certain level of consistency, but the measure often fails to account for certain intrinsic values beyond the numbers of a "simple" measure. Thus, what can policymakers use to assess the efficacy of a policy? One alternative measure is wellbeing, which can be further broken down into several approaches – hedonism, preference selection, or objective list/capabilities approach. Of the three presented approaches, preference selection provides the strongest case for wellbeing as a measure, with the other approaches falling short of creating a solution that accounts for both market efficiency and the personal choices of those affected by a policy.

Looking Beyond GDP

To analyze the role of wellbeing as an effective policy measure, we must further understand the shortcomings of GDP as an evaluation tool. GDP has proven to be a useful measure, but it is quite difficult to account for the true value of GDP. GDP is the combination of the final values of goods produced across a broad spectrum of sectors, ranging from basic agriculture to financial services, within a country. With economies becoming more complex, there are millions of inputs and transactions that must be accounted for. Policies can have a far-reaching impact, with the potential to place unforeseen negative externalities on a society and generate a chain of unintended consequences. This makes it quite tough to determine the full extent by which a policy changes overall GDP. Another issue with GDP is that it fails to account for changes in standard of living over time. In developmental economics, GDP often serves a baseline by which to measure country growth as well as reductions in poverty and income inequality. A common tool by which to measure this growth is the Human Development Index (HDI). With values ranging from 0 to 1, the HDI is an aggregate score of various indicators by which to rank countries in terms of human development. Studies have correlated HDI ranks against GDP-per-capita rankings to reveal a strong correlation between the two values; as GDP-per-capita rank increase the HDI rank will also increase. However, Francisco Rodriguez presents an analysis that supports the theory that developmental policies should look beyond the scope of GDP and more at other factors, such as improvements in health and education, to determine if indeed a policy has achieved any of its intended targets.1 In his findings he revealed that while cross-country dispersion in income per capita has increased, dispersion in HDI scores has decreased indicating that the health and education components of the index are slowly converging across the world. While GDP may be viewed as an easy, standard tool by which to measure the progression of a country's development, these other factors are more useful indicators in determining improvements to overall wellbeing. Thus, it is important to look beyond the scope of GDP and the resource-based approach to understand that different factors contribute to improvements in wellbeing and provide a more solid foundation by which to understand the impact of a policy.

Examining Wellbeing and Preference Satisfaction

The wellbeing approach to policy analysis is rooted in the question, "How can we truly evaluate improvement in overall wellbeing if people behave differently?" While this notion does provide a slight complication, it is a person's ability to choose and satisfy their preferences that leads to better wellbeing. In today's consumer-oriented society, one can go to a mall and choose their optimal bundle of goods that lead to the greatest satisfaction of their desires. Per the economic theory of preferences, once a person's preferences have been satisfied they are at their maximum levels of efficiency and utility. This same reasoning holds true with policy. By choosing to vote for and take on policies that they so choose, citizens are selecting their preferences that coincide with their political views and what they hope to see in a society. Case in a point, the Wake Country Transit Plan that was put up for referendum in this past election. Voters approved the referendum, which will increase taxes to generate revenue to increase public transportation for the county. In choosing "Yes" or "No", voters casted their ballot on whether an improved public transit system would improve or keep constant/worsen their overall wellbeing. In using this approach to evaluate policy, the most effective way to gather data is the surveying method. In expanding on the Wake Transit Plan example, experimenters must collect data over an extended period of time to determine whether or not this referendum has improved overall wellbeing. Possible questions could include, "Has the increase in public transportation improved your overall work experience?" or "Has relying primarily on public transportation changed your lifestyle for better or worse?" By coding responses, researchers can generate an analysis that can reveal the full extent by which a policy has changed wellbeing. Beyond the perspective of behavioral economists, there a few arguments to be made refuting the validity of preference selection as a method of analysis. One key issue is the concept of oppressed preferences, which are shaped by oppressive social conditions. Take for example the German people forced to live under the rule of Adolf Hitler. While many Germans may have had no ill feeling towards the Jews, the threats and fears emanating from the state were enough to drive people to openly support the discriminatory policies of the authoritarian regime. By supporting these policies their short-run wellbeing was improved, but in the long-run it ultimately lead to the capitulation of Germany and the destruction of its economy. Building off this example, another issue with preference selection is that people make mistakes and do not have full information on the outcomes of their decisions. There is no avoiding this obvious flaw. In Hausman's piece, he brings up the case of a tourist stepping onto the road and getting hit by a car.2 While the tourist may have satisfied his preference in this situation, his overall wellbeing is diminished by the fact that a car hit him and possibility killed him. Voters are like the tourist; they may choose a policy or a politician that best represents how they feel, but their choice may end up backfiring and hurting them in the future. They might not have full information on their selection, but their ability to choose represents the most market efficient solution. By placing the final say in the hands of the voters, governments can circumvent the long process of debating and selecting a policy thus saving time and money in determining an effective policy. While measuring wellbeing or utility might be a better option in measuring policy, there are moral objections to this method. These include distributional issues and potential rights-violations. Say utility/pleasure is measured using basic units; one society may have evenly distributed pleasure between members while another may have the same amount but this utility is not evenly spread. However, an efficient society is not necessarily one that is defined by an even distribution of pleasure. By the preference satisfaction approach each one of us will have different preferences thus some actions may generate greater utility for some. Thus, we cannot expect every action to generate equal amounts of pleasure for all. In addressing rights-violations, the justification of a right depends on its tendency to promote happiness and prevent suffering. This is redundant as this is the sole purpose of utility. By allowing someone to pick their preferences they are satisfying their freedom of choice, a basic human right. In the preference selection method, those that are given the choice to select a policy will satisfy their rights, preferences, and maximize their overall utility.

The Hedonism Approach

Beyond the preference satisfaction approach, wellbeing can also be measured using the hedonism approach. Hedonism is defined as the pursuit of pleasure or happiness. Economists often attempt to determine how much welfare is added or lost to society due to a policy. By assuming that welfare equates to happiness, the hedonism approach contends that policies should be evaluated by their effects on happiness. This key premise assumed by the hedonistic approach is flawed in that not all policies or actions are geared toward creating happy or pleasurable experiences. Another objection to this theory is that welfare, and by extent happiness, is impossible to measure. According to the Hausman piece, if people can individually measure their own quality of experiences then the study of welfare becomes obsolete. Once we have the ability to determine if a choice improves or deteriorates our welfare, we improve our chances of effectively picking policies that improve our overall wellbeing. However, we do not have access to complete information making this is a limitation that renders that hedonism approach ineffective. A final objection to the hedonism approach is that the definitions of happiness are ambiguous and vary across literature. With happiness being too complicated of a measure, the capabilities of the hedonism approach are put into question further bolstering the preference selection approach.

Advocating for GDP

While GDP may not be an accurate measure by which to evaluate a policy, there is still some merit to its usefulness. GDP is not a measure of human welfare but an indicator of human welfare. GDP is shown to be negatively correlated with infant mortality and inequality and positive correlated with life expectancy.3 Parents usually tend to feel upset when their children die, thus a decrease in infant mortality may be associated with an increase in happiness. A common sentiment with GDP as a measure is that most people don't benefit from GDP growth and an increase in GDP contributes to greater income inequality. Data has revealed otherwise, with average household incomes raising in the U.S. as GDP has grown.3 While this analysis only provides a limited argument in favor of GDP as a method of evaluation, the overall case for GDP is weak and must be reconsidered.

Conclusion

In conclusion, policymakers should attempt to evaluate policies using wellbeing as a criterion and the preference selection method as the primary approach. Wellbeing is defined as a state of being comfortable, healthy, or happy. Wellbeing can be examined using many different approaches, including the object list and hedonism methods. As a measure of wellbeing, preference selection takes into account efficiency as well as personal choice. These two factors are key in establishing the strength of this approach as the most economic method takes into account these parameters. The GDP method might be a standardized and quantifiable approach to determining the overall effect of a policy, however there are many flaws in using change in GDP as an indicator for evaluation. Thus, wellbeing should be expanded on and used as baseline measure for the efficacy of a policy.

Works Cited

Hausman, Daniel. 2010. "Hedonism and Welfare Economics." In Economics and Philosophy, 26, pp. 321-344. Oulton, Nicholas. 2012. "Hooray for GDP! GDP as a measure of wellbeing." In VoxEu.org. Rodriguez, Francisco. 2009. "What Does the Human Development Index Really Measure?" In The New York Times.